

## seminarios y conferencias

# **L**as finanzas públicas y el pacto fiscal en América Latina

Documentos y ponencias presentados en el XX  
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SESENTA AÑOS CON AMÉRICA LATINA Y EL CARIBE

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## Índice

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<b>Resumen</b>	7
<b>Introducción</b>	9
<b>I. The role of the State and Public Finance in the Next Generation</b>	13
<i>Vito Tanzi</i>	
1. Introduction	13
2. Globalization and Taxes	15
3. The Role of Public Spending	19
4. Fiscal Instruments for State Intervention	28
5. The Future Role of the State in Advanced Countries	30
6. The Future Economic Role of the State in Latin America	33
7. Concluding remarks	36
<b>II. El pacto Fiscal visto a sus 10 años</b>	37
<i>Juan Carlos Lerda</i>	
1. Introducción	37
2. Antecedentes de El Pacto Fiscal	38
3. ¿Un pacto fiscal para promover equidad?	42
4. El “cierre” del modelo	46
5. Algunos comentarios finales con foco en El Pacto Fiscal	50
<b>III. Ponencias</b>	55
1. Adrienne Cheasty	55
2. Mario Marcel	59
3. José Luis Machinea	64

<b>IV. América Latina: Panorama global de su sistema tributario y principales temas de política.....</b>	<b>69</b>
<i>Juan Carlos Gómez Sabaini; Ricardo Martner .....</i>	<i>.....</i>
1. Las características regionales y el nivel de la tributación.....	69
2. Principales rasgos de la evolución de las estructuras tributarias en América Latina.....	76
3. Perspectivas referidas a los principales impuestos.....	80
4. Los efectos de los impuestos en AL: equidad y eficiencia .....	83
5. La economía política de las reformas tributarias en AL.....	84
6. Algunas circunstancias que pueden darle viabilidad a las reformas tributarias en América Latina.....	87
<b>V. Does Fiscal Decentralization Help Create Fiscal Space? .....</b>	<b>91</b>
<i>Teresa Ter-Minassian and Analiza Fedelino .....</i>	<i>.....</i>
1. Introduction .....	91
2. Some macroeconomic dimensions of fiscal decentralization.....	92
3. Creating fiscal space through revenue mobilization at the subnational government level .....	96
4. Creating fiscal space through improved prioritization and efficiency of subnational spending .....	100
5. A few conclusions .....	103
<b>VI. Fiscal Decentralization and Macroeconomic Governance.....</b>	<b>105</b>
<i>Anwar Shah .....</i>	<i>.....</i>
1. Abstract .....	105
2. Introduction .....	105
3. Institutional Environment for Macroeconomic Management .....	107
4. Institutional Setting for Fiscal Policy.....	112
5. Fiscal decentralization and Fiscal Performance: Some Conclusions .....	121
6. Acknowledgements .....	123
<b>VII. The future of Budgeting: more of the same but different.....</b>	<b>125</b>
<i>Allen Schick .....</i>	<i>.....</i>
1. Budgeting as an Evolutionary Process .....	126
2. Means of Budget Evolution.....	129
3. The Colonization of Budgeting .....	134
4. Budgeting Will Be the Same and Different.....	136
5. Conclusions: In the Future, Budgeting will be more of the same but different .....	140
<b>Bibliografía .....</b>	<b>143</b>
<b>Serie seminarios y conferencias: números publicados .....</b>	<b>151</b>

## Índice de cuadros

I.1	PUBLIC SPENDING AND INDICES OF HUMAN DEVELOPMENT IN INDUSTRIAL COUNTRIES IN 2005 .....	21
I.2	SPENDING LEVELS IN SELECTED COUNTRIES .....	22
I.3	RANKINGS IN THE HUMAN DEVELOPMENT INDEX FOR VARIOUS LATIN AMERICAN COUNTRIES, 2005 .....	24
I.4	SELECTED LATIN AMERICAN COUNTRIES DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILES: EDUCATION (CIRCA 2000) .....	26

I.5	SELECTED LATIN AMERICAN COUNTRIES DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILES: HEALTH (CIRCA 2000).....	27
I.6	SELECTED LATIN AMERICAN COUNTRIES DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILES: SOCIAL SECURITY (CIRCA 2000).....	27
IV.1	GOBIERNO CENTRAL: INGRESOS TRIBUTARIOS (CON CONTRIBUCIONES A LA SEGURIDAD SOCIAL.....	73
IV.2	ESTRUCTURA DE LOS INGRESOS TRIBUTARIOS EN LATINOAMÉRICA .....	76
IV.3	AMÉRICA LATINA Y EL CARIBE: ALÍCUOTAS DEL IMPUESTO AL VALOR AGREGADO .....	78
V.1	APPROACHES TO THE CONTROL OF SUBNATIONAL BORROWING.....	94
V.2	A TAXONOMY OF SUBNATIONAL REVENUE ASSIGNMENTS .....	97
V.3	REVENUE STRUCTURE IN SELECTED SUBNATIONAL GOVERNMENTS, 2002.....	98
VI.1	FISCAL RULES AT A GLANCE.....	115
VI.2	FISCAL DECENTRALIZATION AND FISCAL PERFORMANCE. A SUMMARY OF EMPIRICAL RESULTS .....	122

### Índice de gráficos

I.1	PUBLIC SPENDING \$ HDI .....	22
IV.1	LA CARGA FISCAL EN AMÉRICA LATINA Y EL CARIBE .....	72
IV.2	COMPARACIONES INTERNACIONALES DE LA CARGA TRIBUTARIA, AÑO 2006 .....	74
IV.3	INGRESOS FISCALES Y TRIBUTARIOS Y PIB POR HABITANTE, 2006.....	75
IV.4	EVOLUCIÓN DE LAS TASAS PROMEDIO DE IVA, IRPJ Y IRPN PARA AMÉRICA LATINA .....	77
IV.5	PRODUCTIVIDAD DEL IVA (2006).....	79
IV.6	AMÉRICA LATINA: EFECTOS DISTRIBUTIVOS DE LA POLÍTICA TRIBUTARIA (COEFICIENTES DE GINI ANTES Y DESPUÉS DE IMPUESTOS).....	83

### Índice de recuadros

V.1	DEGREES OF FISCAL DECENTRALIZATION.....	93
V.2	COLOMBIA: EFFECTIVE DECENTRALIZATION IN BOGOTÁ .....	96
V.3	PROPERTY TAXES AS A SUBNATIONAL REVENUE HANDLE .....	99
V.4	DIFFICULTIES WITH OVERLAPPING EXPENDITURE ASSIGNMENTS .....	101
V.5	CAN PPPS AT THE SUBNATIONAL LEVEL INCREASE SPENDING EFFICIENCY? .....	103
VI.1	LEGISLATED FISCAL RULES: DO THEY MATTER FOR FISCAL OUTCOMES? .....	122



## Resumen

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Este volumen recoge algunos de los documentos y de las ponencias presentadas en el XX seminario regional de política fiscal de Cepal, Naciones Unidas. Coincidió la fecha con la conmemoración de los diez años de la publicación del “Pacto Fiscal, fortalezas, debilidades y desafíos”. Pareció entonces útil orientar la reflexión de los veinte años del seminario regional de política fiscal al presente de las finanzas públicas en la región y al futuro del Pacto Fiscal en América Latina.





## Introducción

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Este compendio recoge algunos de los documentos y ponencias presentadas en el XX seminario regional de política fiscal de Cepal, Naciones Unidas. Por razones de espacio, no se pudo realizar una publicación exhaustiva<sup>1</sup>. Coincidió la fecha con la conmemoración de los diez años del “Pacto Fiscal, fortalezas, debilidades y desafíos”, documento presentado en el 27 período de sesiones de la CEPAL, en mayo de 1998 en Aruba. Pareció entonces útil orientar la reflexión de los veinte años del seminario regional de política fiscal en torno al Pacto Fiscal, definido en el documento como “el acuerdo sociopolítico básico que legitima el papel del Estado y el ámbito y alcance de las responsabilidades gubernamentales en la esfera económica y social”.

Diez años después los desafíos subrayados por el pacto fiscal siguen vigentes en América Latina, a pesar de que venimos de vivir un período excepcional de bonanza fiscal. Esta publicación recoge la discusión de tres días en torno a estos desafíos, que se relacionan directamente con las funciones de la política fiscal en materia de estabilización macroeconómica, de asignación de recursos y de distribución de ingresos, por parte de connotados especialistas que han estado presentes en muchas de las veinte ediciones del seminario.

Vito Tanzi discute el papel económico del Estado en la próxima generación, advirtiendo que no existe una relación clara entre la participación del Estado en la economía y el Índice de Desarrollo Humano, y resaltando la dificultad de los países de América Latina en

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<sup>1</sup> Se puede acceder a la totalidad de los documentos presentados en el sitio web del seminario, accesible a través de [www.ilpes.cl](http://www.ilpes.cl).

aumentar su nivel de impuestos. Afirmar que en países en que el coeficiente de Gini se aproxima a 0.60, la mayor parte de la base tributaria potencial se sitúa en los deciles altos de la distribución del ingreso. Este hecho debe ser reconocido por los hacedores de política.

Juan Carlos Lerda reflexiona en torno a la equidad, llamando la atención sobre la falta de precisión del concepto, y remarca que el fuerte interés reciente por el tema no debe limitarse al ámbito de lo fiscal, pues la equidad debe ser vista como “la vara fundamental para medir la calidad del desarrollo”. Así, plantea que un pacto fiscal puede asimilarse a un complejo “contrato” cuyas cláusulas integran consensos respecto de lo que puede y debe hacer el Estado en las áreas fiscal, económica y social.

Adrienne Cheasty agradece a la Cepal por su activa agenda en materia fiscal en los últimos años, y por hacer del seminario regional de política un foro influyente en el debate de hacedores de política y académicos de la región. Enfatiza también que el tiempo ha demostrado la madurez del proceso democrático en la región, especialmente al consolidarse la responsabilidad fiscal en la legislación de muchos países. Agrega que en este ámbito de la institucionalidad fiscal, queda aún mucho por hacer en los próximos veinte años.

Mario Marcel plantea que en esta idea de vincular compromisos de gastos con reformas impositivas se ha subestimado el peso de los intereses corporativos y la influencia de las élites sobre la toma de decisiones. La desigualdad de la región también se refleja en la capacidad para defender ciertos intereses corporativos. Para enfrentar esto señala que es importante seguir avanzando en transparencia en materia de finanzas públicas, abriendo espacios a esa voz ciudadana al momento de pensar los consensos fiscales, e incorporar la lógica del pacto fiscal al mismo diseño de los programas.

José Luis Machinea revisa la desarticulación del pacto fiscal durante la crisis de los ochenta, que dio lugar a tres problemas aún no resueltos, como son la falta de inversión en infraestructura, la crisis de la universalidad de las políticas públicas y el desmembramiento del servicio civil. Además de progresar en equidad, para lo cual es necesario reducir la alergia al impuesto a la renta en América Latina, plantea que es menester avanzar en solidaridad y en universalidad en la educación primaria y secundaria y en la salud, para fomentar la cohesión social y otorgar la necesaria legitimidad a la construcción del pacto fiscal.

Juan Carlos Gómez-Sabaini y Ricardo Martner destacan que siguen pendientes las reformas requeridas para mejorar el nivel de la tributación, eliminar los impuestos que alteran la neutralidad económica y reducir la inequidad en la distribución de la carga entre niveles de ingreso. Analizan una serie de razones para explicar este hecho, y afirman que no resulta casual que en los países donde las élites son más fuertes las administraciones tributarias son más débiles. Ello genera un círculo vicioso de desigualdad de ingresos y regresividad tributaria, en lugar de un círculo virtuoso que posibilite a través del esquema tributario la corrección de los grandes desequilibrios de ingreso.

Teresa Ter-Minassian enfatiza que la descentralización puede promover la generación de ingresos adicionales a nivel de gobiernos sub-nacionales y llevar a un gasto más eficiente, y por ello crear más espacio fiscal. Sin embargo, recalca que un sistema de relaciones fiscales intergubernamentales mal diseñado, con duplicidad de funciones, que desincentiva la movilización de recursos propios, con gobiernos sub-nacionales con un débil manejo de las restricciones presupuestarias y con amplio acceso al endeudamiento, puede aumentar la inestabilidad macroeconómica y eliminar estas ganancias potenciales. Así, establece que las condiciones para que los procesos de descentralización generen ganancias de bienestar son muy demandantes.

Anwar Shah muestra por su parte que la descentralización no es sinónimo de indisciplina fiscal. Afirmar que en federaciones maduras, la coordinación de la política fiscal es ejercida por el

ejecutivo y el legislativo y con reglas fiscales formales e informales. La transparencia del proceso presupuestario, la responsabilidad ante el electorado y la disponibilidad de datos comparativos fomentan la disciplina fiscal. Sostiene que las experiencias de países federales indican una capacidad significativa de aprendizaje y adaptación de los sistemas fiscales para crear incentivos compatibles con esta transparencia. Ello explica el porqué, paradójicamente, los sistemas descentralizados tienen un mejor desempeño en muchos aspectos de la gestión monetaria y fiscal.

Finalmente, Allen Schick reflexiona sobre el futuro de la presupuestación. Así, predice que en los países en desarrollo, si aumenta el ingreso disponible, una proporción creciente del presupuesto se destinará a transferencias monetarias, a medida que los beneficios sociales se extiendan. También plantea que los Gobiernos evaluarán más intensamente sus programas, pero que el impacto de estas evaluaciones en la asignación de recursos seguirá siendo limitado. Finalmente, presagia que el presupuesto seguirá siendo un proceso incrementalista. La tarea de los innovadores será la de hacer del presupuesto un proceso más racional, posiblemente utilizando un análisis marginal en las decisiones asignativas, cuantificando los cambios que se derivan de gastar más o gastar menos.



# **I. The Role of the State and Public Finance in the Next Generation**

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***Vito Tanzi***

## **1. Introduction**

This paper discusses the economic role of the state as it evolved during the 20<sup>th</sup> century and speculates on how it might evolve in future decades. Because of availability of statistical information there will be a greater focus on advanced countries. The paper will also address developments in Latin America recognizing the much greater heterogeneity among countries' per capita incomes and economic developments in that region. The wide scope of the topic makes the discussion of it inevitably broad-brush and somewhat impressionistic. A discussion of the future scope of public finance must inevitably start with a review of past developments. The past is always a prologue for the future and there is always a lot to be learned from studying it. We shall start with how current tax systems developed and then move to the spending side of the government role. In the last section we shall recognize that the role of the state can be played also with tools other than public spending and taxes.

Modern tax systems developed largely in the period between 1930 and 1960 a period characterized by: (a) major restrictions on trade erected during the Great Depression and during World War II; (b) limited movements of portfolio capital; (c) little cross-country

investment, except for direct investments in natural resources; (d) little international mobility of people, except for emigrants after World War Two; and (e) almost no cross-country shopping by individuals. In Latin America this was the period when import substitution policies, at the time strongly promoted by CEPAL and by Raul Prebisch, became popular. During these decades, governments had not yet been expected to assume the broad social and economic responsibilities that they would assume in later decades although they were already being pushed, by the prevailing intellectual winds, in that direction. Tax burdens were generally under 30 percent of the industrial countries' gross domestic products (GDP) until around 1960, and well under 20 percent of GDP in developing and Latin American countries.

Between 1930 and 1960 two important "technological" innovations were introduced in the tax area. These were: (a) "global and progressive" income taxes and (b) the introduction of the value added tax (VAT). These two developments, together with social security taxes on the growing shares of wages and salaries in national income in industrial countries that characterized those decades, would account for most of the rise of their tax levels which, by the 1990s, in many OECD countries, would exceed 40 percent of GDP and surpass 50 percent in a few countries. In Latin American countries however, with the exception of Brazil, Argentina, Uruguay and some other countries the tax levels remain today below 20 percent of GDP.

In an influential book, published in 1938, Henry Simons, then a professor at the University of Chicago, made a strong case for taxing all sources of income of individuals as a whole rather than as separate parts (the so-called global income) and for taxing this total with highly progressive rates. This was a radical departure from past practices. Some German economists, such as Georg Schanz, had made similar recommendations. See Musgrave, 1998. It was argued that this approach would better satisfy revenue and equity objectives at a time when the income distribution was becoming a growing concern while the disincentive effects of high marginal tax rates were still dismissed as unimportant. Having been proposed during the Great Depression, (soon after Roosevelt's New Deal) and just before World War II the global personal income tax with highly progressive rates became very popular in the United States and helped finance the Second World War. It soon came to be seen as the "fairest" tax. It remained popular until the 1970s.

Given the American influence in the world after World War Two, the global income tax was quickly exported to other countries. After the war and for a couple of decades, American tax consultants promoted this tax in both developed and developing countries. In the 1960s in Latin America this tax was pushed by the so-called "Joint Tax Program," a program created during the Kennedy years by the OAS, the IDB and the U.N. However, in Latin America the results were less productive in terms of revenue generation than in developed countries.

The other "technological innovation", the value added tax, originated in France. It quickly replaced the turnover (cascade) taxes on transactions that had been common in most European countries, including in the six members of the Coal and Steel Trade Community that would in time blossom into the European Union. The VAT was welcomed by the members of that Community because it allowed the zero-rating of exports and the imposition of imports, thus eliminating discord between trading partners while still leaving countries with the freedom to impose whatever rates they wished. The countries were free to impose the VAT rate that they liked or needed, presumably without interfering with international trade flows. This feature made the value added tax a useful instrument for countries belonging to customs unions. The value added tax has proven itself to be a major revenue source for most countries. Latin America was quick to adopt this tax in Brazil, Uruguay and some other countries. It quickly spread to other countries.

In industrial countries, the two developments mentioned above, together with social security taxes on labor income, imposed to finance public pensions, made it possible for the tax systems of

many countries to finance the large demands for public revenue that the growing functions of government, especially in the so-called welfare states, were creating. See Tanzi and Schuknecht (2000). However, Latin American countries were much less successful, until more recent years, in raising substantial levels of taxation that would allow their governments to play larger roles in the economy through public spending. The consequences were two: first, the use of bad taxes to attempt to raise more revenue; second, to rely on less efficient tools, than public spending, to pursue social goals. This issue is discussed in the concluding section.

## 2. Globalization and Taxes

In recent decades, and especially since the 1980s, important developments have been changing the economic landscape that had characterized earlier decades. These developments have potentially great implications for tax systems but also for expenditure policies. The most important among them are:

- a) The opening of economies and the extraordinary growth of international trade. Import substitution theories and policies are no longer fashionable. The world economy has become much more integrated than it had been in the past. Both developed and developing countries have contributed to this growth. For Latin America this trend toward globalization represents a truly fundamental change from the policies of import substitution of the 1950s and 1960s.
- b) The phenomenal increase in cross-border capital movements. This increase has been promoted by the removal of obstacles to capital mobility. This removal has been facilitated by new policies and by technological innovations that have made communication cheap and rapid. There has been an extraordinary growth in the amount of financial capital that now crosses frontiers on a daily basis. This capital finances direct investment, feeds portfolio investments, covers current accounts imbalances, and provides needed foreign currency to international travelers. It has thus relaxed the correlation that existed in the past between a country's saving rate and its investment rate, a correlation stressed by Feldstein and Horioka. The great flow of capital has also made it easier for governments to finance larger fiscal deficits because they no longer must rely on domestic savings.
- c) The importance of multinational corporations has grown enormously both in the financing of direct investment (for both the production of outputs from natural resources and for the production of manufactured goods) and, especially, in promoting trade among related parts of the same enterprises located in different countries. Time is long past when most enterprises produced and sold their output in the same country or even in the same city or region where they were located. Trade among related parts of enterprises, located in different countries, has become a large and growing share of total world trade. It now accounts for more than half of total world trade.
- d) These international activities, accompanied by growing per capita incomes, sharply falling costs of transportation for both goods and people, increased informational flows that instantly inform individuals about changing relative prices and opportunities created by them, and more liberal policy, have also led to a high mobility of individuals, either in their role as economic agents or simply as tourists and consumers. A large and increasing number of individuals in both industrial and developing or emerging markets now earn all or parts of their incomes outside the countries where they were born and where they may still have their official residence. At the same time a large and growing number of individuals spend part of their income outside the countries where they officially live. In conclusion, markets have become more global.

The implications of these developments for the countries' tax systems and the economic role of the states are still not fully understood by policymakers or economists. The clear and limited role of the state that was identified a hundred years ago by classical economists is giving rise to a much more complex and much less well-defined role. Increasing evidence suggests that the developments described above are also creating growing difficulties for the tax administrators of many countries and opportunities for a few of them. As a consequence, they are raising questions about the optimal role of the state in the current and especially future and more globalized economies. We shall first deal with the tax implications and then with the implications for the optimal role of the state.

Because of the developments described above, a country's potential tax base is now no longer strictly limited, as it was in the past, by that country's territory, but, to some extent, it has been extended to include parts of the rest of the world. The reason is that a country can now try to attract and tax fully or partly: (a) foreign financial capital; (b) foreign direct investment; (c) foreign consumers; (d) foreign workers; and (e) foreign individuals with high incomes, including pensioners. These possibilities did not exist in the past and they are fueling "tax competition" among countries because, at least in theory, each country can try to take advantage of these new possibilities. Tax competition implies that, to some extent, a country's tax burden can be exported at least in part. Especially a small country may now be able to "raid" the tax bases of other countries in ways that were not possible in the past. Like the ocean and the atmosphere, the "world tax base", is thus becoming a kind of "commons", a common resource without clearly established property rights, that, to some extent, all countries can try to exploit to their advantage and to the potential detriment of other countries. The Latin American countries are not immune from this problem.

Tax competition is in part related to the importance of taxation for location and location for taxation. By lowering the burden of taxes on some sensitive activities, tax competition aims at making certain locations (say Ireland or Luxembourg or Costa Rica) more attractive to some investors and for particular activities than other locations. This issue is particularly important when it comes to tax incentives used specifically to attract capital to a specific country and away from competing countries. The attraction of a location depends on several elements such as: (a) statutory tax rates on the income of enterprises; (b) tax practice (administrative and compliance costs); (c) predictability of the tax system, or "tax certainty" over time in both rates and administrative requirements; (d) legal transparency, that is clarity of the tax laws; (e) use of tax revenue, that is the services that the residents or the enterprises get from the government in exchange for the taxes paid; (f) fiscal deficits and public debt, because these may predict future tax increases; and, more generally, (g) the economic or investment climate of the country which is much influenced by regulations, corruption, crime, rule of law and similar factors.

When people face high tax rates, or an unfriendly tax climate in today's environment, they may: (a) "vote with their feet", thus moving to a friendlier fiscal environment, as long as the *ceteris paribus* condition holds; (b) "vote with their portfolio", by sending their financial assets abroad, to safer and lower taxes jurisdictions; (c) remain in the country, but exploit more fully tax avoidance opportunities; and (d) engage in, or increase, explicit tax evasion. Globalization and tax competition are making it easier for individuals and enterprises to exploit these options. They have raised the elasticity of tax bases with respect to tax rates. These actions affect the role that the state is expected to play or is able to play.

Is tax competition a positive or a negative global development? On this question views diverge sharply. Some, and especially theoretical economists and economists with a public choice bent, tend to see it as a clearly beneficial phenomenon. Ministers of finance, directors of taxation and policy-oriented economists tend to see it more as a problem.



The main arguments in favor of tax competition are the following: (a) It forces countries to lower their high tax rates, especially on mobile tax bases, such as financial capital and highly skilled workers. (b) By reducing total tax revenue, tax competition forces governments to reduce inefficient public spending. This “starve the beast” theory was promoted by Milton Friedman and became popular during the Reagan Administration in the USA in the 1980s. (c) It presumably allocates world savings toward more productive investments. (d) Because of lower tax revenue, it forces policymakers to make the economic role of the state more focused and more efficient. (e) It leads to a tax structure more dependent on immobile tax bases lowering the welfare costs of taxation.

Against these arguments there are others that find tax competition damaging. The main ones are the following: (a) Because public spending is often, politically or legally, inflexible downward, tax competition may lead to higher fiscal deficits and public debts, and eventually to macroeconomic instability. (b) When governments are forced to cut public spending because of tax competition, they will not cut inefficient public spending which may have strong political constituencies that protect it, but, rather, capital spending or spending for operation and maintenance. (c) Tax competition may lead to what is called “tax degradation”. That is, governments may try to maintain public revenue by introducing bad taxes to replace lost tax revenues. (d) The shift of the tax burden from mobile factors (financial capital and highly skilled individuals) to immobile factors (largely labor income) makes the tax system less fair. (e) The increased taxes on labor income stimulate the growth of the underground economy and tax evasion and promote informal activities. (f) Tax competition (and reactions to it) can make tax administration and tax compliance more costly and difficult. Growing tax complexity is a frequent consequence of tax competition because tax administrators try to fight tax competition by introducing more complex rules. For these reasons tax systems are becoming progressively more complex. See Tanzi, 2006.

It is difficult to assess the quantitative impact of globalization on tax revenue. This has led some observers to dismiss its impact. However, close observation can help identify some impact and can point to growing future difficulties for high tax countries: (a) In the OECD countries taken as a group, the ratio of taxes to GDP stopped growing in the 1990s, even though large fiscal deficits in many of them would have called for higher tax revenue. In an increasing number of OECD countries, the average tax ratio has fallen in the current decade. In contrast, in Latin American countries recent years have brought about higher tax revenue, facilitated by the favorable cycle, in several important countries. (b) The rates of both marginal personal income taxes and corporate income taxes have been reduced substantially in most countries in the past two decades, in part because of tax competition. However, because of some widening of the tax bases, and because of the increasing share of enterprise income in national income in several countries, corporate income taxes have not fallen as shares of GDPs. (c) The rates of excise taxes on luxury products were sharply reduced in most countries in the past two decades leading to substantial falls in revenue from these taxes. This fall has been made up by increases in value added taxes and, in several countries, in taxes on petroleum and tobacco. The reductions in the taxes on luxury products are in part the consequence of increased foreign travel by taxpayers and the possibilities that it offers for shopping in places where excise taxes on expensive and easy to carry items are lowest. Internet shopping has also contributed to this result. (d) The “global income tax”, has been losing popularity. The dual income taxes introduced by the Scandinavian countries and by some other countries, including Uruguay, are an example of the losing attraction of global income taxes. The dual income tax is a de facto return to the schedular approach to income taxation that had prevailed in the past. (e) There is a growing interest in flat-rate taxes and in “consumption-based taxes”. However, few countries have so far moved toward the introduction of these taxes.

In some papers written over the past decade, I discussed the rise of what I called “fiscal termites”. These “termites” result from the interplay of globalization, tax competition and new technologies. As their biological counterparts can do for wood buildings, fiscal termites can weaken the foundations of tax systems making it progressively more difficult for countries to raise high levels of taxation and to maintain the tax structure that they would prefer. I will list some of these termites without providing much elaboration. For more elaboration see Tanzi (2001).

The first of these termites is Electronic Commerce. Electronic commerce has been growing at a very fast rate, both within countries and across countries, for consumer goods and services and for trade in inputs of intermediate and capital goods. Its growth has been accompanied and facilitated by the growing shift, in the countries’ gross domestic products, from physical to digital products, including intangible capital. This kind of commerce leaves fewer traces than the previous invoice-based commerce that, for example, could be inspected by customs officials and is much more difficult to tax. Electronic commerce is creating great difficulties for tax administrators and legislators who at times seem to be at a loss on how to deal with it. Revenue from value added taxes is clearly affected.

A second termite is Electronic Money (credit cards, other forms). Real money is progressively being replaced by electronic money embedded in chips of electronic cards. A “purse” software may be purchased through deposits in foreign banks or from secret bank accounts making it more difficult to trace and tax various transactions. The use of electronic money may also reduce the revenue from “seigniorage” that countries get from the emission of paper money.

A third important termite originates in transactions that take place between different parts of the same multinational enterprises (i.e., intra-company transactions) located in different countries. Because these transactions are internal to a multinational company, they require the use of “transfer prices” that is of prices at which one part of the enterprise, located in a given country, “buys” products or services from other parts of the same company located in other countries which have different tax systems and tax rates on the incomes of the companies. Being inputs for final products, the products or services bought and sold may not be traded in the open market. Therefore, there may not exist market or “arm’s length” prices that can be used as references. Problems arise especially (a) with inputs that are made specifically for a final product (say a particular jet plane); (b) with use of copyrights, trademarks and patents for which a value must be determined; (c) with the allocation of headquarters R & D or other fixed costs; (d) with interest on loans made from one part to another part of a multinational corporation for which a determination of a market rate is difficult. The determination of these costs or of the prices of the goods and services traded within the enterprises is often difficult and arbitrary. It lends itself to manipulations by enterprises aimed at showing more profits in countries where nominal tax rates on enterprise profits are low (say Ireland), and less profit in countries where the rates are high (say Germany). The strategic use of “transfer prices” by enterprises can significantly reduce the total taxes paid by multinational enterprises creating major problems for tax administrators.

Another termite is the existence and continued rapid growth of offshore financial centers and so-called tax havens. Total deposits in these tax havens have been estimated to be huge by both the IMF and the U.N. The distinguishing characteristics of these tax havens are: (a) low tax rates, to attract foreign financial capital; (b) rules that make it difficult or impossible to identify the owners of the deposits located in these countries; (no name accounts, banking secrecy, etc); and (c) lack of regulatory powers, or information on these deposits, on the part of the countries where the owners of the deposits reside. These tax havens make it possible for individuals and enterprises from the countries where the capital originates to receive incomes that are difficult for national authorities to tax.

Another important termite consists of new, exotic and complex financial instruments that have been continually entering the financial market in recent years. The day is long past when a normal citizen could understand, and easily choose from, the financial instruments in which he/she invested savings. New financial instruments are designed by extremely clever and highly paid individuals and at times are specifically designed to avoid (if not evade) paying taxes. In the United States this has allowed some billionaires to pay tax rates on their incomes that are much lower than the rates paid by their drivers. As a consequence, it is becoming more difficult for the employees of tax administrations (who have normal trainings and modest salaries) to keep up with these developments.

The developments described above and others not mentioned will have a progressively larger impact on (a) tax revenue, (b) tax structures, and (c) the use of particular tax bases. This impact will naturally be larger for some countries and less significant for other countries. Because the role of the state, played through public spending, over the longer run, depends on the countries' capacity to raise taxes and particular types of taxes, that role will also be affected.

All countries will be affected by the existence of these fiscal termites, however, we might speculate that high tax countries, such as various European countries and a few Latin American countries, such as Brazil, Argentina, and Uruguay would be affected more. Transfer prices are a clear concern for all countries and so are electronic commerce and the possibility that more and more investments in Latin America may be financed through loans originating from tax havens and not through equity capital.

Latin American countries suffer from another problem: the share of national income that goes to wages and salaries is much smaller than in industrial countries. This means that, to generate high revenue, either very high tax rates must be imposed on wages and salaries; or non wage incomes must be subject to reasonable taxes. The problem with the latter is that incomes that are not wages and salaries derived from large enterprises or from the public sector are difficult to tax because (a) some of these incomes derive from the informal sector or from self employment, and (b) some are returns to capital (interest, dividends, capital gains, rents, some forms of profits) that may be difficult to ascertain and that are often lightly taxed for fear that the capital that generates these income might fly out of the country. This has created the unusual situation whereby the top income deciles, that receive an overwhelming share of personal income, because of the high Ginis that prevail in Latin America, pay little taxes thus putting a strong downward bias to total tax revenue. The move toward flat rate taxes would not help with this problem. According to various sources, the (non weighted) level of taxation in Latin America has hardly changed in recent decades and has remained below 20 percent of GDP. See Lora, 2007.

### **3. The Role of Public Spending**

The last half century has witnessed major developments in the role that governments have played through public spending in both industrial and developing countries, including the countries of Latin America. This section describes some of these developments. A later section attempts to pierce the veil of the role that governments might play in the future.

The tax levels of many industrial countries are close today to their historical high and sharply higher than they were a century ago. In 1870, a group of 18 currently advanced countries for which data are available had public spending and tax levels of only about 13 percent of GDP. The United States had even lower levels. See Tanzi and Schuknecht (2000). These statistics are much lower than even the low levels that have prevailed in Latin America in recent decades. As a consequence public spending at that time was limited and largely focused on “core” or essential functions such as:

defense, protection of individuals and property, administration, justice, and large public works. These were broadly the functions described by Adam Smith in 1776 in his book, *The Wealth of Nations*.

Because of wars, tax rates in Latin America were higher than in Europe at that time.

In the 20<sup>th</sup> century public attitudes vis-à-vis the economic role of the state started changing. Governments and especially democratic governments with universal suffrage were pressured by their citizens to widen their economic role to include some social and/or redistributive functions. The pressures led to the phenomenal expansion of public spending that took place especially in the second half of the 20<sup>th</sup> century. Public spending started to grow during World War One but its growth was slow until about 1960. The great acceleration came in the period between 1960 and 1990 when many countries, and especially most European countries, created public programs aimed at the economic protection of individuals “from the cradle to the grave”. These programs included public pensions, public health, free public schools, subsidies to large families, unemployment compensation, support for disables, public housing, and so on. As a consequence of these programs, in several European countries public spending approached or exceeded 50 percent of GDP toward the end of the 20<sup>th</sup> century.

The countries of Latin America were not able to raise their public spending to the European level because of their inability to raise their tax levels. Those most exposed to European influences, such as Argentina and Uruguay, and later Brazil, tried to raise their public spending and the taxes needed to finance it. However, these countries failed to raise enough taxes to avoid macroeconomic difficulties even though the level of public spending did not reach European levels<sup>2</sup>. Brazil was a latecomer because until the 1970 it had a low tax and spending level. However, in later years, especially promoted by spending for pensions, public spending (and taxes) grew dramatically approaching in recent years European levels.

Not being able to raise significantly their tax levels, but being pressured to play larger roles in the economy, the Latin American countries made a growing use of tools other than public spending to achieve similar objectives. We shall get back to this issue in a later section.

There is some debate on whether the large increase in public spending that occurred in industrial countries, and especially in European countries, (as distinguished from the growth in per capita income over the period) contributed to a genuine improvement in the welfare of the majority of citizens. Or whether the citizens would have been better off with a lower growth in that spending that would have left them with more money in their pockets (because of lower taxes) but with less governmental services. The increase in public spending often went towards paying for the social services mentioned above. Because public sector intervention often displaces existing charitable or non profit institutions, or private mutual assistance organizations, it does not necessarily, or automatically, add, on a net basis, to the informal arrangements for social protection that citizens had been receiving, or could have received, through private programmes. In some countries there had been extensive social networks that informally provided significant social protection to those in real needs.

It can be assumed realistically that the welfare of citizens is linked to the values of certain socio-economic indicators –such as life expectancy, infant mortality, educational achievements, literacy rates, growth in per capita incomes, inflation and others– that governments want to influence through their public spending policies. See Tanzi and Schuknecht (1997 and 2000). Evidence collected by Ludger Schuknecht and I has shown that there has been little relationships, if any, in recent decades in advanced countries, between changes in the countries’ shares of public spending in GDP and changes (in the desired direction) of these socio-economic indicators. Countries that allowed their public spending to grow significantly more than other countries (the

<sup>2</sup> For the Argentina experience, in its attempt to create a European style welfare state, see Tanzi, 2007.

“large government” countries) did not show, on average, better quantitative results for these indicators than countries that kept their governments smaller and leaner.

The conclusion reached by Tanzi and Schuknecht (2000) is strongly supported by the estimations of the “Human Development Index” (HDI) prepared by the UNDP<sup>3</sup>. The last year for which these HDI, have been prepared is 2005.

**TABLE I.1**  
**PUBLIC SPENDING AND INDICES OF HUMAN**  
**DEVELOPMENT IN INDUSTRIAL COUNTRIES IN 2005**

Country	Public Spending		HDI Rank
	Percentages of GDP	Rank	
Sweden	56.6	1	5
France	54.0	2	9
Denmark	52.8	3	13
Finland	50.4	4	10
Austria	49.9	5	14
Belgium	48.8	6	16
Italy	48.3	7	18
Germany	46.9	8	19
Netherlands	45.5	9	8
United Kingdom	44.7	10	15
Norway	42.3	11	1
Canada	39.3	12	3
New Zealand	38.3	13	17
Japan	38.2	14	7
Spain	38.2	15	12
USA	36.6	16	11
Switzerland	35.8	17	6
Australia	34.6	18	2
Ireland	34.4	19	4

Sources: Public Spending, from OECD Economic Outlook, June No. 81, Volume 2007, Issue 1. Indexes of Human Development (HDI), from Human Development Report, 2007/2008, UNDP.

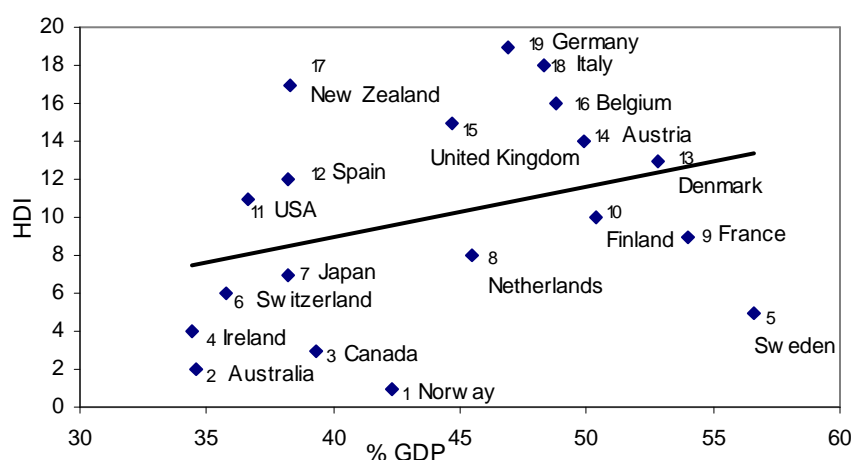
These HDIs can be mapped against the share of public spending into GDP for the same year. If more public spending promotes higher levels of “human development”, the countries that have higher spending levels should have higher levels of human development. Table I.1 provides, for 19 advanced countries, the shares of public spending in GDP and the ranking of these countries in the HDI for 2005. Chart 1 provides a visual representation of the relationship.

The remarkable result is the absolute lack of a positive relation between public spending levels and HDI rankings. High spending countries do not have better ranks. For example the four countries with the highest HDI ranks –Norway, Australia, Canada, and Ireland– have average spending levels of 37.6 percent of GDP while the four countries with the highest spending levels –Sweden, France, Denmark, and Finland– have an average HDI score of more than 9. Their average spending is 53.5 percent of GDP. The ten countries that spend between 44.7 and 56.6 percent of

<sup>3</sup> Quoting from the Human development Report 2007/2008, p. 225, “The...HDI is a composite index that measures the average achievements in a country in three basic dimensions of human development; a long and healthy life; access to knowledge; and a decent standard of living. These basic dimensions are measured by life expectancy at birth, adult literacy and combined gross enrolment in primary, secondary and tertiary level education, and gross domestic product (GDP) per capita in Purchasing Power Parity U.S dollars”.

GDP have an average rank of 12.7 while those that spend between 34.4 and 42.3 percent of GDP have an average rank of 7. Thus, at least for this group of highly developed countries, with per capita incomes and development levels not too different, there is, at best, no positive relation between public spending and welfare, as measured by the HDI. At worst there seems to be a negative relation<sup>4</sup>. After some level of public spending is reached, that for advanced countries seems to be around 40 percent, more public spending does not seem to improve welfare, at least as measured by HDI.

CHART I.1  
PUBLIC SPENDING \$ HDI



Source: Author's calculations.

Before leaving this group of countries it may be worthwhile to mention that several of the best performers, that had had very high levels of public spending in the 1990s, had sharply reduced public spending without apparently suffering any serious consequences. See Table I.2.

TABLE I.2  
SPENDING LEVELS IN SELECTED COUNTRIES  
(Percentages of GDP)

Country	HID Rank	Public Spending		Difference
		1992	2007	
Norway	1	55.7	41.0	-14.7
Australia	2	38.6	34.0	- 4.6
Canada	3	53.3	39.1	-14.2
Ireland	4	45.1	34.4	-10.7
Sweden	5	71.1	54.1	-16.7

Sources: Public Spending, from OECD Economic Outlook, June No. 81, Volume 2007, Issue 1. Indexes of Human Development (HDI), from Human Development Report, 2007/2008, UNDP.

<sup>4</sup> There is actually a correlation of 0.33 between higher spending levels and (poorer) HDI scores. See the line in the Chart.

The data in Tables I.1 and I.2 seem to support a conclusion that public spending of, say, around 35 percent of GDP should be sufficient for the government of a country to satisfy all the objectives that are realistically expected to be achieved by spending action of a public sector in a market economy. If public spending is efficient and well focused, an even lower spending percentage might be possible. Unfortunately in many countries public spending is neither efficient nor well focused. The result is that more public spending provides no guarantee that social welfare and the well being of the masses will be improved.

When we leave the advanced countries of Table I.1 and move to the Latin American countries, we are faced by the realization that in Latin America there seems to be an apparent greater need for public sector intervention, because of widespread poverty, because of very uneven income distribution, and because of the need to improve institutional and physical infrastructures that in many countries remain inadequate. At the same time we must face the fact that the Latin American countries' public sectors are likely to be less efficient than those of the countries in Table I.1. Furthermore, their capacity to raise revenue is much more limited.

The above dilemma is reflected in the responses to survey questions by the citizens of Latin American countries. Quoting from a recent OECD report, "most Latin Americans say that the quality of basic public services in their country is not good. According to Latinobarometro surveys of public opinion, 92 percent of Latin Americans express the view that their government should spend more on basic education, and 75 percent that it should spend more on social security." Italic added. (OECD, 2007, p. 37). The OECD Latin American Economic Outlook 2008 also reports that a small proportion of the population (15 percent in 2003 and 21 percent in 2005) trusts that taxes are well spent and believes that fiscal policy in Latin America has done little to improve the distribution of income.<sup>5</sup> Thus, we are faced with the classic situation of a customer in a restaurant who complains about small portion and bad food. Most Latin Americans want the government to spend more on health, education and social security but most believe that the spending will do little to improve things. Because more spending requires more taxes or more public debt, it seems questionable whether more tax money should be spent unproductively.

In the Human development Index the rating of the Latin American countries also seems to bear little relation to the level of public spending. Table I.3 gives the relative positions in the Index of various Latin American countries. For these countries a complicating factor is the large divergence in per capita incomes and economic development that inevitably influences the ranking, because richer countries tend to have higher HDI scores regardless of the action of their governments. Still the position of Brazil is striking because of its low HDI rank and the very high spending levels. We might add that a focused social spending can generate a ranking much higher than expected from a country's per capita income, as indicated by Cuba's ranking.

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<sup>5</sup> The percentages of those who thought that taxes are well spent ranged from a low of 10 percent in Peru to a high of 37-38 percent in Chile and Venezuela.

**TABLE I.3**  
**RANKINGS IN THE HUMAN DEVELOPMENT INDEX FOR VARIOUS**  
**LATIN AMERICAN COUNTRIES, 2005**

Country	Rank	Country	Rank
Barbados	31	St. Lucia	72
Argentina	38	Bol. Rep. of Venezuela	74
Chile	40	Colombia	75
Uruguay	46	Dominican Republic	79
Costa Rica	48	Belize	80
Bahamas	49	Grenada	82
Cuba	51	Suriname	85
Mexico	52	Perú	87
Trinidad & Tobago	59	Ecuador	89
Panama	62	Paraguay	95
Brazil	70	Bolivia	117
Dominica	71		

Source: UNDP: Human Development Report.

The higher taxes needed to finance high public spending reduce the disposable income of the taxpayers that pay them, thus restricting their economic freedom and their ability to buy from the market what they wish. Most likely, over the long run, high tax levels may also have a negative impact on the efficiency of an economy and on economic growth especially if the taxes are collected inefficiently and the money spent is used unproductively.

An obvious question for higher spending countries is whether the level of public spending (and consequently, of taxation) should be reduced if this could be done without reducing public welfare and without hurting the poorer population. That is to say, if public welfare is not reduced, on any objective criterion, by reduced public spending, then public spending and tax revenue could be cut. This would allow most individuals to have discretion over a larger share of their pre-tax incomes giving them more access to privately provided goods. In other words the citizens would decide how to spend this money, not the government<sup>6</sup>. Of course this argument is not relevant in countries where tax levels and public spending are too low to even provide the minimum resources needed for essential public goods. While public spending can be too high, it can also be too low.

The theoretical reasons advanced by economists to justify the spending role of the state in the economy, including especially the need to help the truly poor, could be satisfied with smaller shares of public spending in GDP than is now found in many countries if governments could be more efficient and focused in the use of their tax revenue<sup>7</sup>. Much current public spending “benefits” the middle and higher classes. At the same time much of the tax “burden” is also likely to fall on the same classes. Putting it differently, the government taxes these classes with one hand and subsidizes them with the other, playing the classic role of an intermediary. This intermediation on the part of the government inevitably creates disincentives and inefficiencies both on the side of taxation as well as on the side of spending.

Before going on with our discussion, let us consider some statistics related to social spending in several Latin American countries. The spending is allocated among the five quintiles. See also OECD (2007, p. 40). Table I.4 refers to education. Table I.5 refers to health. Table I.6 refers to social security. The tables tell us what we already know but they do it in a striking fashion. The

<sup>6</sup> We reject here the view that private citizens are not able to make good decisions with the money that they control.

<sup>7</sup> The truth is that the amount of money spent on the truly poor (say the bottom 20 percent of the income distribution) is in most countries a small proportion of the total.



main lesson from Table I.4 is that while spending for primary education helps almost everyone, and it seems even to help the poorest 20 percent of the population more than the richest percentiles, who may send their children to private schools, as we move toward secondary and especially tertiary education the spending share moves up toward the richest quintiles. It is the richer quintiles that benefit the most from this spending. This seems to characterize all countries for which there are data and is most pronounced for tertiary education. In Guatemala a full 82 percent of the spending for the tertiary education goes to the top quintile. In Brazil, the percentage is 76 percent. In Paraguay it is 56 percent. It is difficult to justify a spending role of the state that subsidizes the top 20 percent of the population. It is also difficult to make a case that the government is more efficient than the private sector in providing higher education.

Spending for health seems to be more evenly distributed creating a stronger case for public spending also because of the greater difficulty for the private sector to provide an efficient market for health that would be affordable on the part of the poor. Of course this highlights the need for efficiency in this spending.

Before discussing social spending for social security, it may be useful to add the observation that the data on Tables I.4 and I.5 allocate spending among quintiles and not benefits. There has been a habit among economists of identifying spending with benefits. However we should realize that the two are different concepts and may diverge significantly. The spending is often received not by the citizens who use the services, but by those who deliver them such as schoolteachers, school administrators, doctors, or nurses. The benefits are assumed to be received by those who use the services, such as school children, patients, and so on. In many cases the providers of services come from higher income quintiles than the beneficiaries of the services. In some cases the spending may not become a “benefit” for the recipient, especially when inefficiency, incompetence or corruption is present. Therefore the allocation by spending may exaggerate the distribution of the benefits to the poorer groups. In some situations those who deliver the services may appropriate, in the form of high salaries, most of the benefits. See Tanzi, 1974. This, of course, does not occur with cash benefits such as pensions.

**TABLE I.4**  
**SELECTED LATIN AMERICAN COUNTRIES DISTRIBUTION OF SOCIAL**  
**SPENDING BY INCOME QUINTILES: EDUCATION (CIRCA 2000)**

Country	First	Second	Third	Fourth	Fifth
Argentina (1998)	21	20	21	20	18
Bolivia (2002)	17	17	21	22	23
Primary	25	25	23	18	10
Secondary	15	18	24	24	19
Tertiary	3	5	17	30	45
Brazil (1997)	17	18	18	19	27
Primary	26	27	23	17	8
Secondary	7	12	28	33	19
Tertiary	0	1	3	22	76
Chile (2003)	35	27	19	13	6
Colombia (2003)	24	23	20	19	14
Primary	37	28	19	12	4
Secondary	24	27	23	19	8
Tertiary	3	8	17	31	42
Costa Rica (2000)	21	20	19	21	19
Primary	32	25	19	15	10
Secondary	18	21	22	22	17
Tertiary	3	8	14	30	45
Ecuador (1999)	15	20	20	22	23
Primary	35	26	20	13	6
Secondary	15	24	25	22	14
Tertiary	3	13	16	28	40
El Salvador (2002)					
Primary	27	25	23	17	8
Secondary	11	20	26	25	18
Guatemala (2000)	17	21	21	21	21
Primary	21	25	23	21	10
Secondary	3	12	23	31	32
Tertiary	0	0	6	11	82
Jamaica (1997)					
Primary	31	27	21	15	6
Secondary	10	15	25	30	20
Mexico (2002)	19	20	19	23	19
Primary	30	26	20	16	8
Secondary	14	20	21	26	19
Tertiary	1	7	15	33	44
Nicaragua (1998)	11	14	20	21	35
Paraguay (1998)	21	20	20	20	19
Primary	30	26	21	15	8
Secondary	14	18	25	24	19
Tertiary	2	5	8	29	56
Peru (2000)	16	18	19	21	26
Dominican Republic	25	26	24	16	9
Uruguay 1998)	28	23	19	16	15

Source: Adapted from information collected at the IDB from various officials Sources. See also CEPAL (2006).

**TABLE I.5**  
**SELECTED LATIN AMERICAN COUNTRIES**  
**DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILES: HEALTH (CIRCA 2000)**

Country	First	Second	Third	Fourth	Fifth
Argentina (1998)	30	23	20	17	10
Bolivia (2002)	11	15	14	25	35
Brazil (1997)	16	20	22	23	19
Chile (2003)	30	23	20	17	9
Colombia (2003)	18	19	19	22	22
Costa Rica (2000)	29	25	20	15	11
Ecuador (1999)	19	23	23	24	11
El Salvador (2002)	26	23	21	18	12
Guatemala (2000)	17	18	23	25	17
Honduras (1998)	22	24	24	17	14
Mexico (2002)	15	18	21	23	22
Nicaragua (1998)	18	23	22	19	18

Source: Adapted from information collected at the IDB from various official. See also CEPAL (2006).

**TABLE I.6**  
**SELECTED LATIN AMERICAN COUNTRIES**  
**DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILES:**  
**SOCIAL SECURITY (CIRCA 2000)**

Country	First	Second	Third	Fourth	Fifth
Argentina (1998)	10	14	20	27	30
Bolivia (2002)	10	13	14	24	39
Brazil (1997)	7	8	15	19	51
Colombia (2003)	0	2	5	13	80
Costa Rica (2000)	12	12	12	18	45
Ecuador (1999)	4	7	21	22	46
Guatemala (2000)	1	3	5	15	76
Mexico (2002)	3	11	17	28	42
Uruguay (1998)	3	7	15	24	52

Source: Adapted from information collected at the IDB from various official. See also CEPAL (2006).

Table I.6 gives us a clear impression of the extent to which social security benefits are appropriated by higher income classes. For the countries included in the table the bottom 40 percent of the population received anywhere between a maximum of 24 percent (Argentina) and a minimum of two percent of the total (Colombia). On the other hand, the top 20 percent of the population receives between 80 percent (Colombia) and 30 percent of the total (Argentina). Those covered by public pensions are a relative minority and are not the poorest citizens who reach the pensionable age. It is thus difficult to justify a public role for pension on the basis of social needs because the poor, who are often in the informal sector and do not have regular jobs, do not benefit from these programs.

The bottom line is that the so-called “social public spending” in Latin America, which, including social security, has averaged about 15 percent of GDP in recent years and has been growing in the past two decades<sup>8</sup>, together with tax systems that are broadly proportional or even

<sup>8</sup> See ECLAC, 2005, and Lora, 2007.

regressive (because of the low taxes on personal incomes and on both real and financial wealth) do little to improve the income distribution that continues to be characterized by Gini coefficients that are the highest in the world. The OECD (2007, p. 31) and the IMF (Nov. 2007, p. 30) have called attention to the marginal impact that fiscal policy has had in Latin America in reducing Gini coefficients, normally by no more than one or two percentage points in the whole region and around 4.5 percentage points on average in Central America mainly because of Panama. At the same time an argument can be made that the attention paid to (inefficient) social spending has distracted governments from their basic role in providing institutional and real infrastructures that are needed by a modern society and from focusing major attention on the truly poor.

In spite of some progress reported for several Latin American countries in various state reforms<sup>9</sup> (including political reform, reform of the judiciary, of public administration, of tax systems, of fiscal decentralization arrangements, of the regulatory framework, of pensions and so on), there is still considerable confusion about what economic role the state should play in Latin America. Because tax revenue do not seem to have increased in many countries in the past two decades (except mainly in Brazil and Argentina) but social spending has increased, there remains the concern that public resources have been diverted from financing fundamental public goods towards social programs that, for the most part, have not been focused on the truly poor, say on the bottom quintile of the income distribution<sup>10</sup>. In recent years more efforts have been made to make some public transfers more focused. These transfers have been combined with particular incentives to those who receive them, thus making the transfers conditional. Examples of such programs are the “Chile solidario”, the “Bolsa Familia”, in Argentina, Panama, Peru and Brazil, “Progresas” in Mexico, and the “Hambre Cero” in Nicaragua. These are important programs but, as long as the tax incidence does not change and as long as much social spending continues to benefit significantly the higher quintiles, the impact of these programs on Gini coefficient will be moderate.

#### 4. Fiscal Instruments for State Intervention

Before moving to the final section, that discusses the future role of the state in industrial and Latin American countries, it may be worthwhile to describe briefly various instruments that have been and will be available to governments to promote various goals such as allocation of resources, stabilization of the economy, redistribution of income, and economic growth. It will be noticed that economic growth has been listed as an additional objective to the trilogy made famous by Musgrave (1959). The reason is that many policies now pursued by governments do not easily fall in any one of the famous three Musgravian objectives but are aimed at promoting economic growth rather than letting it be the automatic result of the allocation of resources to promote public goods.

There has been a tendency in thinking of “fiscal policy” exclusively in terms of taxes and public spending. This myopic approach has failed to acknowledge that fiscal policy can be promoted with instruments other than the traditional ones of taxes and public spending. Depending on the times and the circumstances, some of these instruments have been used and preferred over others. It must be realized that at times while the instruments have changed, the main governmental objectives have remained the four listed above. Let me provide a more complete list of what I would call “fiscal” instruments. The list, though more complete, may still miss some important ones.

<sup>9</sup> See, *The State of State Reform in Latin America*, edited by Eduardo Lora (IDB, 2007).

<sup>10</sup> Actually the focus on tax revenue gives a distorted impression of the public revenue that American governments have available. Many Latin American governments receive large public revenue from the natural resources that they own. This is certainly the case for Venezuela, Mexico, Ecuador, Bolivia and several other countries. In 2005 total public revenue were about 28 percent of GDP that is high by international standards.

- a) Government spending is of course the most traditional and obvious instrument. Both the level of public spending and its structure or composition are important and can be thought as separate instruments.
- b) Taxes are the other obvious instrument. But taxes comprise at least four potential and separable instruments, such as the level of taxation, the structure of taxation, “tax expenditures”, and tax incentives. All of these have been used but some countries rely more on levels and structures (Scandinavian countries) while others have relied more on “tax expenditures” (Anglo-Saxon countries) and on tax incentives (Asian countries and many developing countries).
- c) Nationalization and privatization of enterprises. At different periods and in different countries nationalization or privatization policies have been used as instruments to promote government objectives. For many countries, the years after World War Two were periods of nationalization. The 1980s and especially the 1990s, when the so-called Washington Consensus became popular, became periods of privatization.
- d) Expropriation of particular assets, such as land, has been at times, especially in Latin America, a powerful instrument of fiscal policy. In today’s world this instrument is less used.
- e) Conscription. The government can tax some citizens, say the young, through the process of forcing them to serve in the military or in other public services without (or with little) compensation. Conscription was very important in the past, when people were forced to provide their labor to build roads, public buildings, fight in wars, and so on. It, again, is less used to day.
- f) Certification. The government may require that particular economic agents are certified by the government, or by agencies authorized by the government, to be able to exercise some economic activity. In some countries certification is needed to engage in many activities. At times certification has become an instrument to create “positional rents” for groups of individuals.
- g) Regulations can easily replace taxing and spending with similar effects. See Tanzi, 1998. Regulations have often replaced spending and taxing. Regulations can be pursued through instruments such as multiple exchange rates, monetary repression and policy loans, price and wage controls, preferential hiring quotas, and so on. In all cases the net result is to (implicitly) tax some economic activities and to subsidize others. Regulations have played an overwhelming role in Latin American countries over past decades.
- h) Finally, we must mention two relatively new instruments that are becoming progressively more important including in some Latin American countries. The first is contingent liability, that is the assumption on the part of the government of responsibility for liabilities that might arise in the future in connection with the activities of particular groups of economic operators. These contingent liabilities cost nothing when they are assumed but may become very costly in future years if particular developments occur.

Various examples of contingent liabilities are the following: (i) Insurances provided to airlines by the government for terrorist acts; (ii) assumption of risk for low rates of returns for investments made by private enterprises in connection with “public-private partnerships”; (iii) implicit or explicit government protection for losses connected with natural catastrophes such as floods, draughts, earthquakes, hurricanes, tidal waves; (iv) liabilities for future expenses connected with the ageing of the population (pension liabilities, health expenses, care for the very old, etc.); (v) liabilities for fiscal deficits of subnational governments, especially when connected with unfunded mandates; (vi) liabilities for banking crises; (vii) potential liabilities for global warming, and so on. The main problems with these contingent liabilities are that they can become very costly

to the government but they are not shown in the budgets when the government assumes them. However, through them, the government may influence the behavior of the economy. For example it can have so me infrastructures built by private operators.

Before leaving this section I would like to mention the other instrument, one that is still in its infancy but that might become an important tool for government policy in the future. This is the allocation of future assets to specific categories of citizens. For example a government could legislate that in place of social programs, the government will open an account with a given amount of money in it for every new born child or for every person that, say, reaches a given age (16?, 18?) and let the individuals buy from the market the desired protection against particular risks such as illnesses, unemployment, etc. Thus flow expenditures connected with public spending become stock allocations and the government reduces its involvement in providing social services. The allocation could be based strictly on demographic information.

All these instruments have played and are likely to continue playing their part in the economic role that the state assumes in the economy. However, their relative importance is likely to change in the future.

## 5. The Future Role of the State in Advanced Countries

We have argued above that in advanced countries public spending may be too high. The real difficulties that would be faced by a government in reducing and changing the role of the state in the economy is not that a state that spent less would necessarily imply a reduction in economic welfare but, rather, that it would face strong political reactions on the part of those whose current or expected standards of living have come to depend on the existing public programmes. Government spending programmes inevitably create strong constituencies: pensioners, those close to the retirement age, school teachers, public employees, those who receive public subsidies, and others. These constituencies consider a reduction in public spending as a negative-sum game. Therefore, the evidence that some countries with relatively low levels of public spending operate well cannot be interpreted as an indication that high-spending countries could easily and painlessly reduce their public spending. It only means that after the short or medium run costs of reform have been paid, a country that had made the right reforms could continue to have high socio-economic indicators (high social welfare) with significantly lower public spending and more individual liberty. This for example has happened to Canada that after a decade of sharp reductions in public spending has seen its UNDP Index go up.

Levels of public spending at any one time tend to be set by past political trends and policies, rather than by informed decisions based on the best evidence of the day<sup>11</sup>. Annual budgets are typically incremental. They rarely address the question of whether an activity should be continued or discontinued. For this reason zero-base budgeting has not had much success. At any given moment the level of public spending depends substantially on the entitlements and claims on the government created in past periods often by previous governments. It does not depend on well thought-out analyses and considerations of what the state could or should do in a modern and more sophisticated market economy. It rarely matches the spending level that a modern government might wish to have if it had the freedom and the courage to change the status quo.

For the reasons mentioned above, there is often no realistic possibility of a genuine zero-base assessment of the optimal economic role of the state at a given moment in time. However, if past mistakes, or past misguided actions, have determined the current high level of public spending, that level cannot be assumed to be optimal or nearly optimal in an economic or even a political sense. It

<sup>11</sup> This section draws from Tanzi (2005).

is simply the result of political opportunism. It is, thus, important to distinguish, at least analytically, what could be the optimal role of the state in the long run from its current role.

Should the governments of today's advanced countries simply accept the status quo? Or, should they put in motion radical reforms that in the long run –say over a generation– would bring the role of the state more closely in line with an ideal or currently economically optimal role? Another way of putting the question is: what economic role should the state play, especially in relation to public spending, in advanced industrial countries in the 21<sup>st</sup> Century? This is a difficult question to answer because, inevitably, the answer to it must reflect political biases as well as the importance that one attaches to the transitional costs of getting from where we are today to where we could be, say, 20 or 30 years from now. The greater the importance that one attaches to the transitional costs, and especially to the political costs, the greater will be the inclination by policymakers to maintain the status quo and the current spending programs. It is natural that governments want to remain in power rather than risk reforms that demand much political capital. Let me focus on some essential elements to consider when dealing with the above question.

The first of these elements is the recognition that in a market economy there should be a relationship between what the market is capable of delivering and what the government should do. After all, in a market economy, the state is supposed to correct the mistakes made by the market, or to compensate for its shortcomings, and not to replace the market. More efficient markets should require less government. In a society where the market is underdeveloped for a variety of reasons, so that it is not capable of performing well some important tasks, there will be more theoretical justification for the state to step in to correct or complement the market in some of these functions. This was the main argument that, over the years, led to the enormous expansion in the economic role of the state especially in the last half century. It is also the argument that is often made for more market intervention in developing countries.

As markets develop and become potentially more efficient in performing various tasks and in allowing individuals to satisfy various needs directly and not through the intermediation of the government, –including the need to buy protection against particular events that could have economic consequences– the theoretical justification for governmental intervention through public spending decreases. This should result in a fall in public spending. A perfect market, if it existed, would, of course dispense with the need to have any government at all. However, a perfect market cannot exist. Furthermore some regulatory government role is needed to make or keep the market as efficient as it can be<sup>12</sup>.

A second important element is that when in past decades governments entered a given sector, they introduced laws and regulations that facilitated and justified their own intervention in that sector. This inevitably made it more difficult, or at times impossible, for the private sector to develop private alternatives in that sector. Governmental involvement created public monopolies that eliminated the possibility of developing private alternatives. Public monopolies in energy, communication, postal services, transportation, the provision of pensions, health services, education and in several other activities, in many European countries, prevented the market from developing potentially efficient private alternatives to the public programs that existed in these areas. This created the belief, on the part of a large section of the public, that the public sector must remain engaged in these areas if the welfare of citizens is to be protected.

A third element is that: (a) rapid technological innovations; (b) the growing sophistication of the market on a global scale; (c) the development of global financial services; and (d) globalization in general are changing the conditions for providing the services that citizens need. The current role of the state in many countries was developed mostly in the period after World War II, when, for a

<sup>12</sup> As Adam Smith recognized as far back as 1776, without some government controls the private sector tends to develop monopolistic practices. Thus, as Paul Krugman has put it, it is necessary for government “to exercise adult supervision on markets running wild”.

variety of reasons, the markets were far less developed than they are, or can be, today. The markets were also far more closed. This was the period when the concept of a “mixed economy”, that combined elements of central planning and of market economies and assigned a large and benign economic function to the state, seemed natural and became most popular. At the time it must have seemed reasonable for governments to take over many new responsibilities. The economic profession generally encouraged them to do so<sup>13</sup>.

In spite of many obstacles imposed by governments on markets, and the existence of many public monopolies, markets have become much more sophisticated over the years. With the right governmental guidance they could become even more sophisticated. Various developments have made it possible for the private sector to replace activities that had been previously public. Technological developments have destroyed the presumption that there are “natural monopolies” in the generation of electricity, in various forms of transportation (railroads, airlines), in communications (telephones, telegraphs), in postal services, and in other areas. In several countries, the government has started to withdraw from some of these activities and relatively well functioning private markets have quickly developed in them. This is the case also for private pensions, financial services, and transportation and communication. In most cases the economic welfare of the average citizen has not been damaged by these developments. On the contrary, and with exceptions that often are much publicized, services have often improved in quality while prices have fallen significantly.

Major developments in financial markets, including greater international capital mobility, have removed the presumption that financial savings must be invested domestically and that governments should be involved in the allocation of private savings and credit. In financial markets as well as in the other areas mentioned above, there is, however, a very important surveillance and regulatory function that governments must perform. This function cannot, or should not, be left to the private sector. It is a function that should be taken seriously by the government but that so far it has not been because governments have focused on their spending role. This regulatory function should be part of the core activities of the state.

A fourth element is that globalization, in its various aspects, is bringing major changes to the way markets operate or could operate. Foreign competition can make domestic markets more efficient by destroying or reducing the power of domestic private monopolies and by offering alternatives. Globalization is affecting and can affect public sector activities in other ways. By eliminating frontiers, or making them less constraining, globalization is creating the potential for more options for both citizens and governments. For example, educational and health services can now be obtained more easily than in the past in other countries. In some sense they have become tradable goods<sup>14</sup>. Public sector procurement can now benefit from foreign participation, thus reducing government costs. Savings can be invested abroad. This access to foreign markets has created options beside the ones traditionally available domestically and which were often available only from the public sector.

The current public spending policies of many European countries are likely to prove unsustainable in future decades because of the impact of demographic development on public spending and of globalization on government revenue. Demographic developments with unchanged policies, will push up dramatically various public expenditures and especially those for health, pensions, and the care for the very old. This increase in spending will come on top of already precarious public finances and high tax and public debt levels in several European countries.

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<sup>13</sup> See Tanzi (2006).

<sup>14</sup> The greatest British export today is educational services. International shopping for health services is becoming common and some hospitals have been set up specifically to attract foreigners.



The impact of globalization on government revenue and tax competition could make it impossible for many European countries to compete with countries such as China, India, Vietnam, Korea, Mexico and others while maintaining tax levels that are already very high and in several cases not capable of financing even today's public expenditure. The impact of the baby boom on social spending is yet to be felt fully and the impact of globalization and tax competition on tax revenue has just started to make itself felt. In the next ten years both could be in full force. To prevent major future fiscal difficulties there is only one way out: to try patiently, systematically, and rationally to scale down the spending role of the state in the economy while making a serious and competent effort to increase the efficiency of the private as well as that of the public sector. This would make it possible for the private sector to step in and replace the government role in covering some important economic risks that citizens face thus allowing the public sector to reduce its spending.

The reduction in the spending role of the state should be based on three pillars. The first pillar should be the improvement in the working of the private market through the effective use of the government's regulatory power. In this role the government will need to be ruthless and efficient. In a market economy this is surely the most important role of the state.

The new government role in protecting individuals against risks with economic consequences can be played in two ways. First, by requiring individuals to buy some minimum protection directly from the market. Governments already force individuals to: (a) get insurance for their cars; (b) get driving licenses; (c) have fire alarms in some buildings; (d) build safe buildings; (e) wear seat belts while driving; (f) quit smoking in public places; (g) get vaccination against some diseases; (h) stay in school until a given age; and (i) take other actions aimed at making individuals pay for, or avoid being damaged by, events that might affect them as well as others. Why not apply the same principle vis à vis the treatment for major illnesses, minimum pensions, or other similar needs?

The second pillar should be the progressive substitution of programs with universal, free or almost free access to them, toward programs targeted for the poor and based exclusively on ascertained and documented needs. Universal programs (such as free health services for all, free higher education for all, etc.) are easier politically but are expensive. Targeted programs can save a lot of money but are more demanding politically and in terms of information. Problems connected with poverty traps must receive specific attention. The difficulties in these changes cannot be minimized.

The third pillar should be the progressive exploitation of new opportunities offered by globalization for services not domestically available or available at high costs –such as elaborated medical procedures, advanced technical training, relatively safe channels for money saved for old age, and so on. These can now be bought from foreign providers if the domestic private market is unable to provide these services at competitive prices and the government has still the obligation to provide these services to some citizens.

It is obvious that much thinking and much experimentation will be required over future decades to bring out the progressive and efficient scaling down of public spending and tax levels. It is also inevitable that mistakes will be made. But when it comes, the transformation is likely to include the three pillars mentioned above. Without that transformation, the public finances of several high spending countries will become more and more a public concern.

## 6. The Future Economic Role of the State in Latin America

For many years the countries of Latin America did not have well developed markets and had little capacity or will to raise high tax revenue. Repressed financial markets, multiple exchange rates, high import tariffs, price controls, and politically influenced public enterprises restrained dramatically the development of private markets. As we saw earlier the (unweighted) level of

taxation increased little over recent decades. It was only in the most recent years that some important countries, and especially Brazil and Argentina have succeeded in significantly increasing their tax level. However, while their ability to raise taxes was restrained, the Latin American governments were not immune from strong popular pressures to spend more and to play a larger social role in the economy. Being unable to raise the tax level, they relied on regulations to play such a role. This in turn made it more difficult for private markets to develop.

Repressed financial markets that favored some loans, multiple exchange rates that favored some imports, high tariffs on some imports and low tariffs on others, public enterprises that employed too many people and sold some of their services too cheaply, controlled labor markets that made firing costly, minimum wages, controlled prices for some basic commodities, rent controls on housing, export taxes to reduce the domestic price of some goods, and so on can be considered as an alternative (to high public spending) way of exercising a large government role in the economy. In effect the governments created primitive regulatory welfare states, at least in intention if not in results.

The “Washington Consensus” was to a large extent a frontal attack on this government role. That consensus aimed at removing many of the regulations that Latin American governments had used in the decades before the 1990s, to protect through regulations and not through public spending urban workers. It is easy to criticize this role of the state, because it was clearly inefficient and an obstacle to economic growth, the point stressed by the Washington consensus. However, for many (and especially for urban) workers the protection appeared real and even helpful. The dismantling of this “regulatory welfare state” may have led to the recent reactions, in several Latin American countries, against the “Washington consensus”. These reactions are evident from responses to questions put by Latinobarómetro to Latin American citizens and from recent election results. In principle the removal of many of these regulations could have been replaced by public spending. But, the limitation in tax revenue made this impossible for many countries in the region. Thus, urban workers lost some of the indirect social protection that they thought they had. Some lost their jobs in public enterprises or in enterprises protected by high tariff walls.

In the future the governments of the Latin American countries where taxes are low ought to try to make their tax systems more productive. This, however, will be difficult as long as personal income taxes continue to contribute little to total tax revenue<sup>15</sup>. In countries where Gini coefficient approach 0.60, flat-rate taxes are not likely to generate the needed revenue and are not policies that should be contemplated by the Latin American governments. Much of the potential tax base is in the top deciles of the income distribution. This has to be recognized by policymakers and should be reflected in the incidence of taxation<sup>16</sup>.

If more taxes could be collected, the higher revenue should be directed, first, to modernize the state, by improving the quality of the basic services that it provides. Basic education and essential health services should receive full attention but so should services related to personal safety, justice, public transportation and similar.

The state should reduce its involvement in activities that are costly but are used mainly by higher income groups and where the services could be bought by these groups directly from the market. Higher education would be one of these activities. Incomes for old age pensions could be another. However, an argument could be made for helping old people who were too poor to save for old age and that reach old age without a pension because they never had a regular job. The latter include a significant share of the population of Latin America.

<sup>15</sup> Given the high concentration of income in most Latin American countries, personal income taxes contribute shockingly little tax revenue.

<sup>16</sup> Flat-rate taxes may be good tools for countries with low Ginis such as several “transition” countries.

As we argued above, those who are covered by public pension systems are often were not the poorest among those who reach pensionable ages. In many developing countries available forecasts of the liabilities of public pension systems for future years (i.e., the present value of the stream of future pensions promised to workers under current legislation less the present value of the stream of future social security taxes) indicate growing financial liabilities for many countries for public pension systems. These large pension liabilities (or hidden pension debts) have been the main reasons why several countries around the world introduced in recent years some version of the pension model first introduced in Chile in 1981 that privatizes all or part of the pension systems.

In the Chilean model, the government reduces its spending responsibility and increases its regulatory responsibility. It represents a fundamental step toward a state that would exercise its social responsibility not by taxing and spending but by requiring its citizen to follow prescribed actions<sup>17</sup>. The state can then focus its spending role in providing truly public goods and in assisting the truly poor instead of those in middle or higher classes who should be able to look after themselves. The state does not abandon its social goals; it mainly changes the instruments through which it pursues them.

In a world in which many markets have or can become more efficient and more global, perhaps with the push of international institutions, if governments became more forceful and efficient in their regulatory role, it should be possible for them to reduce the intermediary, spending and taxing role that they have played especially in public pensions. In the traditional public pension system workers pay social security taxes (based on their wages and salaries) to the government during their working life. When they reach the official, pensionable age, the government is expected to repay them with monthly pensions that bear some but often not a close relationship to the taxes they had paid during their working life. Thus, in some sense the government operates as a saving bank for each worker but without a real guarantee that what they contribute to the bank will determine what they will take out. The problem is that the bank is empty most of the time, and is often in the red. The contributions of the current workers go quickly out to pay the pensions of those already retired. The workers often see their contribution as taxes and not as savings.

Often governments are forced to use general public revenue to be able to meet their pension obligations because the contributions by current worker are not sufficient to meet the obligations. This system is exposed to problems created by demographic changes, that increase the number of retirees respect to that of the workers, by the inefficiency of governments in using productively the taxes that they receive, by political pressures to increase the level of pensions, and, most importantly, by the fact that people who have not contributed, because they were not part of the formal economy, are not entitled to receive a public pension, when they reach retirement age, regardless of their needs.

Given the characteristics of the economies of developing countries and emerging markets, there are valid reasons to suggest that governments should change their basic role, that has been largely to protect those lucky enough to have had jobs in the formal labor market while forgetting about those who had been in the informal economy. The latter were often the poor majority. It can be argued that the basic role of the state should require that it pay more attention to the truly poor. This can be done by seeing the public role as providing a minimum income, or a minimum pension, to all citizens who reach a given old age. In this system age would be the sole criterion for receiving this income.

The minimum pension could be estimated as a fixed proportion (say as an example, 25 percent) of the per capita income of the country in the most recent year for which this information is available. Thus, the absolute level would change automatically, as the per capita income changed. The

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<sup>17</sup> It is a paternalistic role of the state based on mandates rather than on spending. Both differ from a state based on individualistic responsibilities in which the state would play no role.

pensionable age could be set as a constant proportion of life expectancy. Say at 80 or 90 percent of the average life expectancy of the country. Thus, it would change automatically when the life expectancy changed. The pensions would be paid out of general revenue and not out of payroll taxes. Therefore, there would not be the disincentive effects of high social security taxes on the labor markets.

In sum, the variables needed would be: (a) the country's per capita income; (b) the country's life expectancy; and (c) the age of the pensioners<sup>18</sup>. Such pensions would make a significant impact on poverty reduction because many who are old and poor have no incomes or have incomes that are very low. Those receiving these pensions could continue to be economically active if they so desired. They would still be entitled to the pension. The administration of these pensions would be simple and the cost to the countries not very high because the pensionable age could be set at a level that would limit the number of eligible people. The state would be performing one of its basic roles, that of assisting the poor and doing it without distorting the labor market or removing individual responsibilities<sup>19</sup>. This is suggested as an alternative to the current systems. But of course for a long time those who have acquired rights in the present systems would continue to receive the pensions from these systems.

In addition to this general, basic scheme, the government could help the workers in the formal labor market by providing a regulatory framework (and the needed information) that would assist all citizens who wished to do so to invest part of their savings in income producing assets that would provide them with additional resources, when they retired, beyond the minimum pensions. If channeled to specific categories of assets, these investments could benefit from a deduction from taxable incomes as, for example, IRA accounts do in the U.S.A. This would create a culture that encouraged individual to take personal responsibilities for their actions. Obviously, specific transition problems would need to be solved and these problems might obviously be difficult ones.

## 7. Concluding remarks

The role that the state plays in economic matters, in both advanced and developing countries, have been much influenced from the ideologies of the past. They often do not reflect modern thinking, modern needs, and modern possibilities. Discussions have often been directed toward the instruments used and not enough to the goals to be achieved. For example, public spending has been defended even when much evidence indicates that it is less beneficial to the poor than generally believed.

Furthermore, public spending can be of an "exhaustive" kind, that is the kind that uses resources directly, or it can be in cash. The relative use of these alternatives should depend on the efficiency of public sector institutions in performing some activities. When the high spending, welfare states, of Europe reduced, in the past decade, their public spending they generally preferred reducing cash transfers over transfers in real services. However, it is less clear that this would be the better policy for Latin America where the institutions that deliver social services are likely to be less efficient in general. Thus in these countries a role of the state based on objective criteria (say age) and using cash transfers or the creation of earmarked cash allocations to particular groups might, in particular circumstances be the preferred alternative. We need to allocate more analyses to these possibilities.

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<sup>18</sup> In countries where no records are available for some citizens, this would be a problem.

<sup>19</sup> Note that the pension received would be a large share of the incomes of the poorest and an almost insignificant share of that of people in the high percentiles.

## **II. El Pacto Fiscal visto a sus 10 años**

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***Juan Carlos Lerda***

### **1. Introducción**

Al cumplirse 10 años de la preparación de “El Pacto Fiscal”, documento presentado por la CEPAL en el vigésimo séptimo período de sesiones de la Comisión realizado en Oranjestad, Aruba, en mayo de 1998, este ensayo se suma con gusto al ancestral ritual de conmemorar hitos especiales de la vida, re-visitando algunos aspectos seleccionados del referido trabajo.

La mera aproximación a la tarea de re-visitar “El Pacto Fiscal” permite ver claramente la dificultad de abordar la vasta gama de tópicos desarrollados en los diez capítulos y numerosas secciones de dicha publicación. De hecho, como todos los documentos institucionales que la CEPAL prepara para sus reuniones bienales con los gobiernos miembros, “El Pacto Fiscal” debe ser visto como una obra colectiva cuya preparación involucró la participación de numerosos profesionales de la casa, especialistas en las diversas materias allí tratadas, así como de varios consultores externos, durante un largo período de tiempo. En estricto rigor, una retomada de “El Pacto Fiscal” con el propósito de generar una evaluación de los progresos alcanzado en esta década, así como de ofrecer un intento de explicación acerca de las posibles causas por las que diversas

recomendaciones de política no fueron debidamente implementadas, incorporando nuevas miradas a los temas previamente abordados e incluyendo el tratamiento de temas nuevos o emergentes, todo ello complementado por la revisión, actualización y ampliación de la base cuantitativa del proyecto, requeriría el trabajo de todo un equipo con tiempo y recursos adecuados. Así es que –siguiendo una nomenclatura familiar en Naciones Unidas– la preparación de “El Pacto Fiscal+10”, por ahora, permanece como una asignatura pendiente.

La tarea que aquí se emprende es mucho más modesta y persigue dos objetivos limitados: (1) presentar un recuento personal de algunos de los antecedentes que condujeron a la preparación de “El Pacto Fiscal”; (2) ofrecer una reflexión crítica sobre algunos aspectos de su contenido, en particular referidos a la dimensión equidad. Dada la posición privilegiada en que me encuentro, aprovecharé para presentar algunas reflexiones generales, sin necesidad de sujetarme a los tratamientos de tipo más técnico que seguramente serán la pauta obligada en otras sesiones de este 20 Seminario Regional de Política Fiscal.

## 2. Antecedentes de El Pacto Fiscal

### 2.1 Proyectos regionales en política y descentralización fiscal

Hacia fines de los años 80 la CEPAL puso en marcha un Proyecto Regional de Política Fiscal que tuve el honor de dirigir, financiado en una primera etapa por el PNUD y posteriormente por el Gobierno de Holanda, cuyo propósito era generar un mejor diagnóstico y conocimiento cuantitativo de las causas de los desequilibrios macro-fiscales que las economías de América Latina habían venido experimentando a lo largo de dicha década.

A su vez y en vista de la importancia que venían ganando en la Región varios aspectos del tema de la descentralización, me cupo la responsabilidad de elaborar una propuesta para un segundo Proyecto Regional, esta vez enfocado en Descentralización Fiscal. Este último estuvo a cargo de nuestro recordado colega y amigo Gabriel Aghon y fue financiado por la GTZ.

A pesar de que tanto la gestión operativa como las fuentes de financiamiento de dichos proyectos eran independientes, se estableció un eficaz mecanismo de coordinación informal que promovió positivas sinergias entre ambos, transformándolos en importantes fuentes de información para un proceso de reflexión más amplio que tuvo lugar en la CEPAL durante la década de los 90 en torno de los problemas económicos y sociales que habían venido afectando el crecimiento económico de los países de la Región durante la década precedente<sup>20</sup>. La coordinación lograda entre los dos proyectos permitió que la difusión escrita de los estudios y resultados de cada uno de ellos se hiciera a través de la misma *Serie Política Fiscal* de la División de Desarrollo Económico - donde ambos estuvieron radicados durante la década de los 90- hasta que aquélla fue discontinuada en razón de cambios en la política editorial de CEPAL. Otra manifestación de dicha coordinación es que el formato del Seminario Regional de Política Fiscal reservó de manera permanente una sesión de su programa anual a la presentación y discusión de estudios sobre temas de Descentralización Fiscal que frecuentemente eran productos del Proyecto Regional sobre Descentralización Fiscal.

<sup>20</sup> El contexto a que se alude es la propuesta de “transformación productiva con equidad” que orienta el trabajo de la CEPAL desde 1990 hasta la fecha. Ver CEPAL (1990): *Transformación productiva con equidad. La tarea prioritaria del desarrollo de América Latina y el Caribe en los años noventa* (LC/G. 1601-P), Santiago, Chile. Para una reciente evaluación ver CEPAL (2006): *Fernando Fajnzylber, una visión renovadora del desarrollo de América Latina*, Libros de la CEPAL N° 92, Santiago, Chile, noviembre.

La cantidad de información fiscal que ambos proyectos generaron –básicamente durante los años 90– se compara favorablemente con otras iniciativas de la CEPAL en dicha área y generó la necesidad de encontrar espacios y mecanismos de discusión, evaluación y difusión.

## 2.2 Seminario Regional de Política Fiscal (SRPF)

El SRPF tiene su origen en los talleres-seminarios organizados por el Proyecto Regional de Política Fiscal CEPAL-PNUD, a fin de discutir los avances y/o informes finales de los estudios de caso nacionales elaborados por los consultores de cada país. Dado que era virtualmente imposible que el responsable del proyecto pudiera hacerse cargo de elaborar los términos de referencia, identificar y negociar con posibles candidatos a consultor de numerosos países las condiciones de los correspondientes contratos (ej. contenido, metodología, datos a utilizar, plazos de entrega de los informes, remuneración, etc.), supervisar la evolución de los trabajos y además evaluar la calidad de los informes de avance y productos finales que iban siendo recibidos, pareció indispensable promover la realización de talleres-seminarios de presentación y discusión de los trabajos con la presencia de representantes del área fiscal y de centros académicos o universitarios de cada uno de los países involucrados. Este espacio constituyó un conveniente mecanismo de control de calidad de los documentos producidos por los consultores, al mismo tiempo que permitió ir divulgando los resultados del Proyecto a nivel regional<sup>21</sup>.

El referido mecanismo se fue perfeccionando con la participación de representantes del área fiscal de los gobiernos y del ámbito académico de los países de América Latina, a lo que se sumó la inestimable contribución de especialistas fiscales del Departamento de Finanzas Públicas del FMI, así como del Banco Interamericano de Desarrollo y del Banco Mundial. Ello permitió promover y explotar sinergias que enriquecieron la programación anual del SRPF, el que de esta manera pasó a ser percibido como un evento de cada vez mayor interés, no solo porque en él inter actuaba una enriquecedora combinación de autoridades fiscales de la Región, funcionarios internacionales y académicos especializados en temas fiscales, sino también porque el diseño adoptó una mirada incluyente de los grandes temas de la fiscalidad, complementados por otros de interés emergente<sup>22</sup>.

## 2.3 Hacia un heterodoxo equilibrio cognitivo

La acumulación de resultados, conocimientos y experiencias derivadas del Proyecto Regional de Política Fiscal, sumadas a las enseñanzas acumuladas a partir de la sucesión de ediciones anuales del Seminario Regional de Política Fiscal, fueron cuajando en una interpretación de la realidad –y de lo que cabe esperar como resultado de las intervenciones que se intenten sobre aquella– que de manera estilizada se puede resumir en los siguientes dos componentes.

El primero reconoce la importancia de prestar debida atención a materias técnicas y recomendaciones propias de la *ciencia normal* en el campo fiscal (ej. reglas fiscales dirigidas a promover equilibrios macroeconómicos; diseño tributario compatible con mínima distorsión en la asignación de recursos para cada nivel de gobierno; administración tributaria capacitada para detectar operaciones de evasión del IVA tanto como para identificar maniobras con “precios de transferencia”; administración de las adquisiciones del gobierno central mediante sistema computarizado –transparente y eficiente– de compras en red; adopción de un modelo de programación financiera y gestión de la deuda pública que optimice los flujos de caja del Tesoro

<sup>21</sup> El referido mecanismo de control de calidad era complementado por talleres-seminarios nacionales, con los que se buscaba aprovechar las externalidades positivas de contar con una audiencia más amplia de especialistas en cada país.

<sup>22</sup> La estructura del SRPF contemplaba espacios permanentes con “con destino específico” (política macroeconómica y equilibrios fiscales, gasto público, tributación, y descentralización -cum- federalismo fiscal), asignándose el resto del tiempo a diversos otros temas que podían variar de un año a otro. Este diseño se mostró muy útil para explotar economías de aglomeración, sin incurrir en costos de saturación.

Nacional; etc.). Este conjunto de proposiciones –junto a muchas otras que no es necesario listar aquí– está asociado a lo que en principio todo el mundo entiende como *buenas prácticas fiscales*. Estas últimas corresponden al plano normativo de las recomendaciones de política fiscal, deberían ser de aplicación universal (con independencia de diferencias de contexto), e implícitamente adoptan el punto de vista de que la formulación y diseño de políticas es materia de libre elección por parte de agentes gubernamentales benevolentes y dotados de perfecta racionalidad y capacidad de cómputo para evaluar diferentes alternativas. Adicionalmente se puede decir que tales agentes deben tener principios y fuerza de voluntad suficiente como para resistir operaciones de lobby sectorial –u otras de nombre menos distinguido– promovidas por el interés privado de “buscadores de rentas”. Con base en lo anterior sería posible juzgar si una economía tiene sus políticas “right” (lo que ocurriría cuando las autoridades económicas de un país supieron elegir “la mejor” opción), o “wrong” (cuando la elección es técnicamente subóptima).

El segundo reconoce que los factores políticos (ej. posiciones y presiones ideológico-partidarias; sistemas electorales y de representación; morfología y características de funcionamiento de los mercados políticos en que se negocian y aprueban las políticas públicas; modelo de “cuoteo” para asignación de altos cargos de dirección en la administración pública; grado de discriminación y exclusión social de grupos vulnerables; grado de concentración de la riqueza, ingreso y oportunidades de todo tipo; grado de influencia política de grupos afluentes; exigibilidad y “justiciabilidad” de los derechos civiles, políticos, económicos, sociales y culturales, etc.), juegan un rol mucho más importante –en la explicación de la fragilidad estructural de las finanzas públicas de diversos países en la región– que el que es habitualmente atribuido por los diagnósticos de la ortodoxia fiscal. Esto supone aceptar que las políticas que son finalmente implementadas son –en parte al menos– de carácter endógeno, y que los resultados alcanzados dependen no apenas de la calidad técnica del contenido de una propuesta de política, sino también, de la calidad del proceso de debate, negociación, aprobación e implementación de aquella<sup>23</sup>.

Esto último puede parecer una trivialidad, sin embargo, los diagnósticos especializados en temas fiscales han estado enfocados durante décadas en aspectos y consideraciones de carácter exclusivamente técnico. Por cuenta de una arbitraria -y frecuentemente improductiva- separación entre temas de naturaleza técnica y política, terminó por prevalecer la visión ortodoxa de que el análisis de las finanzas públicas debe privilegiar la identificación de problemas y soluciones respecto de los primeros, evitando –tanto como posible– entrar al ámbito de los segundos. En razón de ello, la perspectiva tecnocrática que aun domina gran parte de las recomendaciones de política en estas materias conduce a cierto menú de opciones consideradas técnicamente “superiores” en el campo de las reformas tributarias (ej. ampliar la base del IVA, uniformizar tasas, eliminar exenciones y uso de tasa-cero sobre productos seleccionados), y/o reformas del gasto público (ej. mejorar la focalización de programas clave, introducir tasas de uso o cofinanciamiento de los beneficiarios de prestaciones recibidas, etc.), complementadas por reformas de instituciones presupuestarias (ej. introducción del presupuesto plurianual) y programas de modernización de la gestión pública (ej. programas de evaluación de la calidad del gasto y de sus resultados, sistema de capacitación, especialización y periódica actualización de funcionarios gubernamentales, programas de alta gerencia pública, etc.), entre otras.

## 2.4 La tesis de fondo en “El Pacto Fiscal”

Aun reconociendo la importancia del tipo de recomendaciones precedentes, es evidente que tal diagnóstico no identifica ni hace explícito lo que a nuestro entender constituye una importante

<sup>23</sup> Ver BID (2005): *The politics of policies*, Informe IPES 2006; Stein, E.-Tommasi, M. (2007): “Instituciones democráticas, procesos de formulación de políticas y calidad de las políticas en América Latina”, en Machinea, J.L.-Serra, N. (Eds.) (2007): *Visiones del Desarrollo en América Latina*, Ed. CEPAL-CIDOB.



causa de la fragilidad estructural de la finanzas públicas en América Latina, esto es, la disputa no resuelta entre actores con intereses, posiciones e interpretaciones contrapuestas acerca del rol del Estado en la vida económica y social, y su financiamiento. Más específicamente, cuando la mencionada fragilidad de las cuentas fiscales no se debe a razones de carácter transitorio vinculables al ciclo económico, cabe conjeturar que ella puede estar reflejando problemas estructurales situados más allá del ámbito de responsabilidad propia de las instituciones presupuestarias. De hecho, aquella frecuentemente refleja problemas originados en el funcionamiento de las instituciones políticas y económicas más generales, tanto de carácter formal como informal, a partir de las cuales se estructura y ordena el entorno dentro del que se desarrolla la actividad humana en general y económica en particular.... “A partir de esta construcción es posible avanzar la tesis de fondo que subyacente al trabajo: La fragilidad de las finanzas públicas en la región refleja la debilidad del pacto fiscal que legitima políticamente el papel del Estado y el campo de responsabilidades gubernamentales en la esfera económica y social. Aunque la falta de acuerdo político es estas materias no es patrimonio exclusivo de América Latina y el Caribe, lo cierto es que la ausencia de un consenso estable sobre lo que se podría considerar adecuado en materia de nivel, composición y tendencia del gasto público –como también, de la tributación requerida para su funcionamiento– es particularmente acentuada en dicha región”<sup>24</sup>.

## 2.5 Algunos puntos débiles que requieren trabajo adicional

Puede decirse que “El Pacto Fiscal” puso por primera vez a disposición de los países de América Latina y el Caribe, una visión amplia e integrada de los principales problemas fiscales de la Región. Al hacerlo incluyó una vasta gama de materias de interés fiscal que hasta entonces habían sido tratadas de manera aislada y descentralizada. Con ello se ganó en cobertura temática y en una mejor comprensión del carácter sistémico de los temas que nos ocupan. Pero como es natural, “El Pacto Fiscal” no está libre de limitaciones que a futuro convendría ir superando. Entre ellas mencionaremos aquí solo unas pocas.

En primer lugar, “El Pacto Fiscal” no ha mostrado interés por las contribuciones de la propia CEPAL e ILPES a temas de finanzas públicas y política fiscal previos a su publicación. Debido a que se deseaba apoyar el análisis con información numérica –y en vista de las severas limitaciones que se debían enfrentar en esta materia– el “vector cero” en las series temporales de “El Pacto Fiscal” es frecuentemente el año 1980, al mismo tiempo que la información cuantitativa allí usada se limitada a los años 80 y 90. Ante la falta de información comparable para periodos anteriores a los recién indicados, puede crearse una impresión equivocada respecto a un eventual desinterés de ambas organizaciones por los temas fiscales. Esto es así, sobretudo, a raíz de los dos volúmenes de artículos con los que en 1998 se celebraron los 50 años de la CEPAL<sup>25</sup>. En efecto, dado el foco analítico con el que se guió la selección de artículos allí reunidos, es evidente que la ausencia de referencias bibliográficas sobre temas fiscales, puede crear la sensación de que las áreas de finanzas públicas y política fiscal no recibieron suficiente atención en el pasado<sup>26</sup>.

El segundo aspecto se refiere a los conceptos de “equidad” y “pacto” usados en el trabajo que nos sirve de referencia. Como se observa más adelante, con posterioridad a “El Pacto Fiscal”, los mencionados conceptos han pasado a ser utilizados con creciente frecuencia, pero sin que –al parecer– hayan sido acompañados por una elaboración suficientemente detallada acerca de sus

<sup>24</sup> Lerda, J.C. (1997); ver también CEPAL (1998): *El Pacto Fiscal*, Op. cit.

<sup>25</sup> CEPAL (1998): Cincuenta Años de Pensamiento en la CEPAL, Vol. 1 y 2. En particular ver el artículo del Coordinador de dicho trabajo Bielschowsky, R. (1998): “Cincuenta años del pensamiento de la CEPAL”, CEPAL (1998), Op.cit, Vol I.

<sup>26</sup> Para ilustrar que este no fue el caso basta recordar algunas importantes contribuciones anteriores a “El Pacto Fiscal”, como por ejemplo: Martner, G. (1967): *Planificación y presupuesto por programa, Siglo veintiuno Editores* (21 ed. 2002); Assael, H. (1973): *Ensayos de Política Fiscal*, Fondo de Cultura Económica, México DF; Herschel, F (1975); *Ensayos sobre política fiscal*, Editora de derecho financiero, Madrid.

significados más precisos. En las páginas que siguen se aborda esta materia con el propósito de llamar la atención para algunas de las dificultades conceptuales que le rodea. Una de ellas nos remite a una conexión, por analogía, con el Teorema de Imposibilidad de Arrow<sup>27</sup>.

El tercer aspecto a ser comentado se refiere a un problema bastante común en la literatura sobre políticas públicas, en el sentido de que el documento transcurre en una especie de limbo respecto al grado y/o tipo de racionalidad típico de los agentes gubernamentales responsables por la implementación de determinados cursos de política, como también, de aquellos a quienes se dirigen las políticas recomendadas en “El Pacto Fiscal”. A este respecto se introduce la hipótesis de Kahneman & Tversky (2000), desarrollada en Kahneman (2002), con el fin de ilustrar las dificultades asociadas con el manejo de la noción de “equidad”.

### 3. ¿Un pacto fiscal para promover equidad?

#### 3.1. Introducción

La historia vista como construcción selectiva de memorias y olvidos permite anticipar que quienes estudian la evolución de las ideas sociales recordarán el período de transición entre los siglos 20 y 21 por el surgimiento de numerosas y relevantes propuestas promoviendo la inclusión de criterios de equidad en la formulación, diseño e implementación de la política social.

Un elemento novedoso de tales propuestas es que ellas no se limitan a propiciar un nuevo ciclo de discusión de problemas distributivos en la agenda del desarrollo y de las políticas públicas<sup>28</sup>. Como veremos más adelante, la noción de equidad que las referidas propuestas tratan de impulsar, excede largamente la tradicionalmente estrecha interpretación dada al término en economía. En todo caso no parece razonable argumentar que aquéllas sean una respuesta equivocada a la creciente ansiedad colectiva causada por frecuentes referencias a incrementos en desigualdad de ingresos que –en la opinión de al menos un conocido analista económicos– no habrían objetivamente ocurrido<sup>29</sup>.

Por cierto, el interés por el tema equidad no es nuevo ni exclusivo de estos tiempos. En realidad ha estado presente a lo largo de la historia siempre que se ha buscado reflexionar de manera substantiva sobre temas relacionados con ética, justicia e igualdad<sup>30</sup>. Pero aunque su complejidad no ha facilitado la tarea de clarificar, sintetizar e implementar soluciones para los desafíos que plantean diversas formas inequidad, en tiempos recientes dicha búsqueda ha venido desarrollándose dentro de un clima político-ideológico favorable al reconocimiento y ampliación – al menos nominal– de derechos civiles y políticos, como también, económicos, sociales y culturales (DESC) de las personas. En este contexto destacan las luchas contra la discriminación de género, raza, etnia y religión, entre otras, y por la igualdad de oportunidades para todos<sup>31</sup>. Adicionalmente, se vienen desarrollando espacios de creciente legitimidad política e intelectual para que valores

<sup>27</sup> Arrow, K. (1963).

<sup>28</sup> Referencias al hecho de que los temas distributivos están de vuelta a la agenda pública, como en Kanpur-Lustig (1999), aluden exclusivamente a la distribución de ingresos.

<sup>29</sup> Esta última parte de la provocativa tesis de Naím (2006) está fuertemente desmentida por la evidencia empírica presentadas en CEPAL (2003) y UN (2005).

<sup>30</sup> La literatura de un largo período histórico recoge tales antecedentes. A título de ejemplo, el *Diálogo de Melios*, en Tucídides (460-395? a.C.), enfoca la relación entre justicia e igualdad. Las causas de las desigualdades sociales y económicas entre los hombres son tratadas en Rousseau (1754). Sobre ética, justicia y equidad ver Smith (1759), de donde emerge la figura del “observador imparcial” que anticipa la imagen del “velo de ignorancia” de Rawls (1971). Para una reciente revisión de teorías de justicia en economía ver Konow (2003).

<sup>31</sup> Esto se traduce en incontables iniciativas en esa línea, como por ejemplo, la declaración por la Unión Europea del 2007 como Año Europeo de la Igualdad de Oportunidades para Todos. Al respecto ver: [http://ec.europa.eu/employment\\_social/eyeq/index\\_cfm?cat\\_id=EY](http://ec.europa.eu/employment_social/eyeq/index_cfm?cat_id=EY)

como ética, justicia y equidad –de fundamental importancia para la vida civilizada de cualquier comunidad– sean incorporados al conjunto de categorías analíticas que maneja el mundo académico, y para que sean considerados componentes esenciales de las agendas de trabajo de autoridades gubernamentales, líderes de la sociedad civil y organismos internacionales.

Irónicamente, una buena parte de los desarrollos aludidos se dio durante el último cuarto del siglo 20, en tiempos largamente coincidentes con el avance de la actual fase del proceso de globalización económica y financiera. Esto último, en interacción con las políticas domésticas pro-mercado que le dan sustentación, terminó produciendo –particularmente durante los años 90– una inequívoca tendencia a la concentración del ingreso a escala internacional. Ello ocurrió no apenas en América Latina –donde dicha tendencia se sumó a crónicos problemas de pobreza e indigencia– sino también en importantes economías del mundo industrializado<sup>32</sup>. Adicionalmente, hacia fines del año 2006 se hicieron públicos los resultados de un proyecto de WIDER-Naciones Unidas, con la primera evidencia empírica de calidad técnica aceptable, sobre un fenómeno que hasta entonces solo figuraba en el plano de las conjeturas educadas, esto es, que la distribución de la riqueza patrimonial neta de los hogares a escala mundial es aun más concentrada que la correspondiente a ingresos<sup>33</sup>. No es de extrañar entonces que desde fines del siglo 20 y hasta el presente, comenzaran a encenderse diversas alarmas alertando sobre el agravamiento a escala internacional de los problemas distributivos en materia de ingresos, y haciendo que el tema fuera reinstalado en la agenda de prioridades de gobierno, organismos internacionales y círculos académicos, tanto del Norte como del Sur<sup>34</sup>.

Así es que durante la transición hacia el presente milenio, las dos megatendencias previamente apuntadas –esto es, la gradual ampliación y reconocimiento de los derechos individuales y la creciente concentración del ingreso y la riqueza a escala mundial– facilitaron la incorporación de la noción de equidad en el centro del aparato conceptual con que se formulan, diseñan e implementan políticas públicas, y en particular, la política social.

En efecto, el análisis y discurso político-económico-social entorno de la desigualdad entre los hombres –que durante largo tiempo estuvo tradicionalmente centrando en pobreza e indigencia, así como en distribución y concentración de ingresos– está pasando a ser crecientemente organizado, orientado y conducido en términos de equidad. De hecho, un buen número de influyentes documentos oficiales de organismos internacionales publicados en años recientes, ha propuesto verla o considerarla como objetivo central del desarrollo, criterio fundamental para juzgar la calidad de este último, medio necesario para la integración social y desarrollo ciudadano, requisito indispensable en la lucha contra la pobreza, condición necesaria para que las naciones puedan alcanzar la prosperidad en el medio y largo plazo, entre otros<sup>35</sup>. El corolario de todo ello ha sido una verdadera explosión de recomendaciones para incorporar consideraciones de equidad explícitamente en la formulación, diseño e implementación de las políticas públicas, y en particular, de la política social. En paralelo a esto último –y de manera consonante con el clima político-ideológico antes mencionado– ha venido registrándose una progresiva ampliación del significado atribuido a la noción de equidad y del ámbito de políticas públicas en que se considera

<sup>32</sup> En relación a la concentración de la distribución de ingresos en América Latina ver CEPAL (2000), CEPAL (2002-2003 y años siguientes hasta 2006). Para la OECD ver Atkinson (1999), Förster-Pearson (2002), Smeeding (2002). Para evidencias de divergencia entre grupos de países ver UN (2006).

<sup>33</sup> En relación a la concentración de la riqueza de los hogares ver la primera estimación conocida a nivel mundial en Davies et al (2006), donde se muestra que el 2% de la población adulta del mundo controla el 50% de la riqueza patrimonial neta de los hogares (activos físicos y financieros menos endeudamiento).

<sup>34</sup> Kanpur-Lustig (1999) ofrecen un interesante análisis de las razones que explicarían el regreso –a fines del siglo 20– de los temas distributivos a la agenda de los problemas del desarrollo. Sin embargo omiten mencionar las tendencias y clima de opiniones favorables aquí aludidos. Ello pasa por alto un importante aspecto destacado en su propio estudio: que por lo general, el contexto es un importante condicionante o determinante de los resultados. A este respecto ver Kahneman (2002).

<sup>35</sup> Ver por ejemplo CEPAL (1990), (1998), (2000a), (2000b), (2004), (2006), Banco Mundial (2006), BID (2004), (2006), FMI (1999), OECD (2004), (2005), UNICEF (2005), (2006), WHO (2005), (2006).

necesario introducirla. En la medida que equidad pasó a ser vista como nuevo foco de análisis y concepto principal del discurso público sobre política social, también fue quedando clara la creciente responsabilidad del Estado para asegurar una provisión del este bien público, de manera compatible con el mayor protagonismo conceptual que la noción viene adquiriendo en el ámbito de la política social. De manera complementaria, ello requiere asegurar los recursos presupuestarios necesarios para financiar los programas, proyectos y actividades del caso. Este es precisamente el momento en que se produce el encuentro entre la deseada mayor oferta de equidad y la restricción presupuestaria del gobierno.

Con base en estos antecedentes, el ensayo revisa críticamente una selección de trabajos relativamente recientes sobre equidad y política fiscal, destacando la falta de unicidad y precisión observada en la caracterización de la noción de equidad, a la vez que intentando explicar el referido hecho desde la perspectiva teórica de Kahneman et al<sup>36</sup>. Dado que el intento de promover y proveer mayor equidad a través de la política social tiene un costo fiscal a ser financiado, el trabajo también examina el “cierre” lógico de la argumentación presentadas en diversas propuestas. Para ello se indaga entorno de preguntas como las siguientes: ¿Se trata de introducir mayor equidad en la formulación, diseño e implementación de la política social, subordinando dicho objetivo a la disponibilidad de recursos derivados del Pacto Fiscal vigente? ¿Se propone un nuevo Pacto Fiscal para viabilizar un nuevo Pacto Social, entendiendo que ambos deben negociarse y procesarse de manera conjunta o simultánea? ¿Se propone un nuevo Pacto Social para asegurar la provisión de un cierto “piso” de equidad, al mismo tiempo que se deja a cargo de las autoridades fiscales “crear espacio” financiero reasignando prioridades presupuestarias? Por último se presenta un conjunto de observaciones sobre temas conexos que enfocan la atención sobre el marco conceptual de “El Pacto Fiscal”, complementado por algunas conclusiones<sup>37</sup>.

### 3.2 Equidad ¿Quo Vadis?

Un aspecto que llama la atención al revisar la literatura con propuestas para introducir consideraciones de equidad en la política social es la falta de precisión y unicidad que rodea la caracterización del concepto que se trata de implementar. Este elusivo carácter transmite la sensación de que se está lidiando con un blanco móvil.

En esta sección se elabora un intento de explicación respecto de esto último, usando como marco conceptual las ideas desarrolladas por la escuela de Kahneman-Tversky (2000) a lo largo de las últimas décadas. Esta última es aun relativamente poco difundida en los círculos económicos de América Latina, de modo que tal vez convenga caracterizarla sintéticamente diciendo que sus principales proposiciones resultan de combinar experimentos de laboratorio en el área de psicología cognitiva con problemas de interés económico, en particular, vinculados a procesos de toma de decisiones.

El punto de partida aquí es uno de los resultados mejor consolidados de la psicología cognitiva moderna, el que sostiene que el cerebro humano opera según dos modos básicos<sup>38</sup>.

El primero de ellos (subsistema 1) trabaja de manera frecuentemente automática, no involucra mayores esfuerzos y participa en casi todo tipo de actividades del día a día; maneja conceptos y perceptos; se nutre de impresiones respecto de los atributos de aquello que se observa, habla o piensa; dichas impresiones son influenciadas por recuerdos o memorias frecuentemente imprecisas y/o sesgadas, informaciones aleatorias, creencias, estados de ánimo, emociones y pasiones, expectativas y

<sup>36</sup> Kahneman (2002), Kahneman-Tversky (Eds) (2000).

<sup>37</sup> CEPAL (1998).

<sup>38</sup> Esta disquisición, aparentemente tan alejada del enfoque económico convencional, constituye el punto de partida del enfoque metodológico y línea de trabajo de Kahneman (2002) que la Real Academia Sueca de Ciencias premió con el Nobel de Economía del 2002.

evocaciones, así como por la manera en que se formulan y ordenan las preguntas, por el contexto, circunstancias y/o uso del lenguaje; es básicamente subjetivo; genera intuiciones o pensamientos fácilmente accesibles, esto es, que fluyen de manera espontánea y rápida sin que medie un proceso de reflexión deliberada; establece comparaciones, analogías y paralelismos entre situaciones, comportamientos o experiencias -reales o imaginadas- que hasta pueden ser independientes entre sí; no se ata a la rigidez de formas de razonamiento, argumentación o prueba predeterminada; la heurística, auxiliada por ocasionales destellos de “serendipity”, es su método de descubrimiento por excelencia; a través de ella encuentra soluciones, extrae conclusiones y/o toma decisiones – frecuentemente– en un abrir y cerrar de ojos<sup>39</sup>, a lo largo del camino se apoya en reglas prácticas y/o de sabiduría convencional sin que sienta la obligación de ofrecer detalles ni explicaciones acerca de cómo consiguió un determinado resultado; tampoco se siente obligado a dar respuestas consistentes, ni se ruboriza al ser confrontado con decisiones contradictorias; su modo de funcionamiento genera “anomalías” de comportamiento (ej. sesgos ego-céntricos y diversos tipos de problemas de auto-control) en relación a lo que cabría esperar dentro de la cultura del hombre racional; es difícil de educar, modificar o guiar.

El otro (subsistema 2) es gobernado por razonamiento sistemático; maneja conceptos de manera deliberada y controlada a través del uso de reglas lógicas que se aplican de manera idealmente objetiva, consistente y generalmente secuencial; su operación disciplinada y rigurosa es costosa en términos de esfuerzo y tiempo; sus capacidades están sujetas a aprendizaje y pueden ser mejoradas a través de educación, entrenamiento y experiencia práctica; es el modo cognitivo que predomina en el campo de la investigación y el razonamiento científico convencional y opera tanto de manera deductiva como inductiva. En particular, la teoría económica neoclásica cuenta con la figura de un auténtico paladín de este modo cognitivo. Se trata de un verdadero especialista conocido como “*homo economicus*”: un agente perfectamente racional que maneja a la perfección el método deductivo y que opera como si su subsistema 1 estuviera desconectado o atrofiado; está dotado de infinita capacidad lógica y computacional, lo que le permite actualizar expectativas de manera bayesiana y tomar decisiones óptimas que luego implementará a rajatabla, con una fuerza de voluntad solo comparable a su habilidad para arbitrar precios en mercados competitivos.

A partir de este marco conceptual se puede indagar posibles razones de la evidente diversidad de significados atribuidos a la noción de equidad en la literatura económico-social. Un primer paso consiste en reconocer que la concepción de equidad se inscribe en el mundo de las normas, valores, usos y costumbres, sociales y culturales, que regulan de manera informal la vida colectiva de cualquier grupo humano y que –como el resto de las instituciones informales– se van moldeando evolutivamente con la práctica social a lo largo del tiempo<sup>40</sup>. Y si bien en muchos casos aquéllas cambian lentamente –tal vez en el curso de siglos o milenios, según sugiere la escala de Williamson<sup>41</sup>– no se puede descartar que el carácter no-ergódico y por tanto “*path dependent*”<sup>42</sup> del mundo real, dé lugar a: (1) desvíos entre las impresiones que diferentes personas y grupos (ideológicos, políticos o religiosos; regionales, nacionales o culturales, entre otros) tienen de lo que serían atributos esenciales de la noción de equidad; (2) que tales diferencias o desvíos se acumulen por períodos de tiempo suficientemente largos hasta generar múltiples equilibrios interpretativos. De esta forma, la evolución del significado atribuido a la noción de equidad puede llegar a resultar en una suerte de ‘especiación’ conceptual no siempre reconocida o suficientemente destacada<sup>43</sup>.

<sup>39</sup> Gladwell (2005) argumenta acerca de la racionalidad propia de esta forma de pensar y decidir.

<sup>40</sup> North (1994).

<sup>41</sup> Williamson (2000).

<sup>42</sup> Sobre la relación entre procesos no-ergódicos y “*path-dependent*” ver David (2000).

<sup>43</sup> La idea seminal en biología, de que una especie está constituida –no por un grupo de individuos parecidos, sino– por una colección de aquellos que pueden reproducirse entre sí, pero no con otros (Mayr (1942)), ofrece una intrigante analogía con lo que ocurre en las ciencias sociales, donde los significados atribuidos por diversas comunidades profesionales, escuelas de pensamiento o “paradigmas”, a ciertas nociones o conceptos de uso supuestamente común pueden llegar a ser substantivamente muy diferentes, aunque luzcan superficialmente parecidos.

De hecho, la sola mención de la palabra equidad evoca nociones cuyo sentido específico refleja la subjetividad de las impresiones procesadas por el subsistema 1 de quien escribe, habla u opina, respecto de los atributos que le atribuye al concepto. En la medida que su significado es transmitido intergeneracionalmente a través de ejemplos, ilustraciones, narrativas e interpretaciones procesadas por el subsistema 1 de diversos relatores a lo largo de extensos períodos de tiempo, lo extraño sería encontrarnos con una caracterización única y precisa. Por ello, aun cuando se intentan tratamientos razonados del tema siguiendo los cánones propios del subsistema 2, el resultado de la búsqueda habrá de mostrar las complejidades que el concepto encierra, haciendo evidente las razones por las que –hasta hoy– no se cuenta con una caracterización que convoque acuerdo general.

Adicionalmente y en paralelo con la tendencia contemporánea de paulatina ampliación de los derechos ciudadanos mencionada previamente, pareciera estar verificándose una compleja expansión del ámbito en que se desea introducir la noción de equidad en la formulación, diseño e implementación de políticas públicas.

Por todo ello, las propuestas en pro de mayor equidad reflejadas en diversos documentos recientes, al no mostrar suficiente coincidencia conceptual, difícilmente pueden presentar convergencia respecto del objetivo específico de política pública que cada una de ellas trata de alcanzar. A priori parece razonable anticipar que un eventual proceso de aproximación hacia una interpretación básica compartida internacionalmente sobre equidad –en caso de ocurrir– habrá de llevar algún tiempo. Cabe entonces reconocer que, entretanto, cada gobierno de América Latina, al introducir consideraciones de equidad en la formulación, diseño e implementación de la política social, deberá aplicar criterios propios<sup>44</sup>. Como puede anticiparse, este problema deberá traer complicaciones cuando –a futuro– se trate de establecer comparaciones entre los avances logrados por distintos países en esta materia.

El problema apuntado no contribuye a facilitar la tarea de reflexionar sobre lo que podría ser un pacto fiscal para promover equidad, pues hace depender la tarea –y en particular, la de estimar los recursos necesarios para financiar tal iniciativa– de la conceptualización que adopten las autoridades de cada país.

## 4. El “cierre” del modelo

Para ilustrar el amplio margen de discrecionalidad existente en relación a este punto, se procede a una revisión selectiva de la literatura sobre el tema.

- 1) El locus clásico del concepto de equidad en el pensamiento económico neoclásico se encuentra en la teoría del bienestar. Esta última muestra que bajo condiciones fuertemente restrictivas es posible tratar los problemas de eficiencia y equidad separadamente. Las principales proposiciones de dicha teoría (los así llamados “teoremas fundamentales” del bienestar) dan lugar al “teorema de separación” según el cual es posible lograr eficiencia paretiana a través del accionar de agentes racionales en mercados competitivos, mientras se deja el tratamiento de los problemas de equidad a cargo de un sistema de transferencias e impuestos de tipo “lump-sum”. En este contexto, se habla de una mejora en términos de equidad cuando ocurre una reducción en el grado de concentración de la distribución de ingresos disponibles (y viceversa)<sup>45</sup>. Por este motivo la literatura sobre el tema alude indistintamente a problemas de equidad o de carácter distributivo. Esta perspectiva se asocia normalmente a los resultados del juego distributivo, sin embargo, no hay nada en el enfoque que lo limite a problemas y correcciones ex-post del grado de concentración de la distribución de ingresos. En efecto, este modelo también admite

<sup>44</sup> En realidad, las propuestas de Naciones Unidas (2005) y Banco Mundial (2006), al igual que las correspondientes a la Metas del Milenio, constituyen planteos que trascienden el nivel meramente regional.

<sup>45</sup> El citado trabajo de Kanpur-Lustig (1999) ilustra bien dicho uso.

correcciones ex-ante por medio de impuestos y transferencias que, sin distorsionar la asignación de recursos, permitan modificar la distribución inicial de factores (cuando esta última sea considerada socialmente insatisfactoria)<sup>46</sup>. Aunque la teoría no siempre lo especifica, se sobreentiende que tanto las correcciones a priori (de la dotación inicial de factores) como a posteriori (sobre la distribución de ingresos resultante), se hacen mediante el uso de impuestos y transferencias que inciden directamente sobre individuos y no sobre familias. Una limitación obvia e importante de este enfoque es que solo contempla lo que ocurre en el espacio de bienes y servicios sujetos a intercambios de mercado. Por construcción quedan entonces fuera del radar de este enfoque numerosas otras fuentes y formas de inequidad ajenas a los mecanismos de mercado. No hay duda de que al mirar más allá de lo que ocurre en los mercados, nos encontramos con externalidades negativas asociadas a múltiples formas de discriminación que afectan la calidad de vida de quienes las padecen. El grado de concentración de la distribución de estos efectos adversos –y sus cambios en el tiempo– quedan, por cierto, fuera de la pantalla del marco teórico bajo consideración. Y a pesar de que en los cursos de micro-economía suele hablarse de externalidades como si se trataran de curiosas excepciones a la regla –la que estaría supuestamente dada por operaciones de intercambio de mercado vía precios– basta mirar a nuestro alrededor para entender el papel central de las primeras en la vida humana en sociedad. De allí que, sin pretender desarrollar aquí la proposición inversa, basta consignar que un enfoque capaz de ignorar un tema tan importante como las externalidades, resulta evidentemente limitado para el propósito de reflexionar sobre el tema equidad<sup>47</sup>.

- 2) Dentro de la emergente literatura sobre equidad merece destacar la caracterización propuesta por el Banco Mundial en su reciente Informe sobre el Desarrollo Mundial 2006<sup>48</sup>:

La equidad se define en función de dos principios básicos. El primero es la igualdad de oportunidades, a saber, que los logros de una persona a lo largo de su vida deberían estar determinados fundamentalmente por sus propios talentos y esfuerzos, más que por circunstancias predeterminadas como la raza, el género, los antecedentes sociales y familiares o el país de nacimiento. El segundo principio es la ausencia de privación en los resultados, en particular en los terrenos de la salud, la educación y el consumo.

Aquí se aprecia claramente un rasgo distintivo del nuevo énfasis de las actuales preocupaciones con equidad: la idea de “nivelar el terreno de juego” antes de que comience el partido. Iniciativas en este sentido no son para nada extrañas en el discurso y práctica de la política social de los países del Norte, como tampoco lo son al discurso político en los países del Sur, pero ciertamente podrán venir a representar una importante novedad en la práctica de la política social de estos últimos. En todo caso cabe observar la conspicua exclusión de variables como ingreso o riqueza, del conjunto de “circunstancias” iniciales que se debería “nivelar” en razón del efecto que aquellas dos normalmente tienen sobre las posibilidades de movilidad ascendente de individuos o grupos familiares<sup>49</sup>. Un segundo aspecto a ser registrado es el principio de ausencia de privación en los resultados. Esto equivale a tornar obligatorio la fijación de un piso para quienes resulten perdedores en los “juegos” de la salud, educación y consumo. Este segundo principio implica costos fiscales inciertos cuyo

<sup>46</sup> Una posible razón por la que no es frecuente encontrar sugerencias de corrección ex-ante, deriva de que el ordenamiento jurídico establecido en cualquier país tiende a preservar los derechos de propiedad, inhibiendo por tanto iniciativas que afecten la distribución inicial de factores.

<sup>47</sup> La proposición de que las externalidades son más bien la norma y las operaciones de mercado la excepción, parece especialmente correcta en relevantes ámbitos del quehacer humano a lo largo de la historia. Aun restringiéndonos a lo económico, la perspectiva histórica-antropológica de Polanyi (1944) releva otras importantes “formas de integración” humana –con base en reciprocidad y redistribución– además de los mercados. Sin embargo, es fuera del ámbito económico que la referida proposición adquiere validez plena.

<sup>48</sup> Banco Mundial (2006).

<sup>49</sup> La exclusión de ingreso y riqueza inicial hace que la caracterización del Banco Mundial –aunque prometedora– se parezca en mucho a la manera de ver las cosas presentada en el ítem 3.1.

- volumen dependerá de las restricciones que cada gobierno coloque –a los individuos o familias– para poder calificar como beneficiarios.
- 3) La CEPAL también ha contribuido con diversos documentos al proceso de reflexión sobre lo que debe entenderse por equidad en el contexto de las políticas económica y social. Así por ejemplo, en el “Pacto Fiscal”<sup>50</sup> –y sin que ello fuera su objetivo principal– se adelantaron ideas coincidentes con las que se vienen manejando de manera masiva en esta primera década del siglo 21: “En particular, la sociedad suele confiar al Estado un papel muy crucial en la promoción de la equidad, y el pacto fiscal resulta incompleto e insatisfactorio si ese papel se omite, se descuida o se cumple insuficientemente. Aquí resultan de importancia tareas de promoción de la igualdad de oportunidades, con sus expresiones, por ejemplo, en el ámbito de la educación, la salud y el empleo, y tareas de protección a poblaciones vulnerables”, agregando a seguir que “no puede quedar descuidada la equidad con que se recaudan los recursos que el Fisco emplea para éstas y para sus demás tareas”<sup>51</sup>. Este último punto conecta con otro locus clásico de la reflexión sobre equidad en finanzas públicas: la progresividad, proporcionalidad o regresividad de los impuestos, transferencias y gastos presupuestarios, ítems abordados en diversos capítulos del referido documento. Aun sobre esta material el Pacto Fiscal presta especial atención a la relación entre equidad y evasión tributaria por tratarse de un ejemplo de discriminación contra quienes cumplen sus obligaciones para con el Tesoro. También se abordan temas como la equidad intergeneracional en relación a los sistemas de pensiones, y la nivelación de los desequilibrios verticales y horizontales entre jurisdicciones en el marco de las relaciones fiscales intergubernamentales y de los procesos de descentralización fiscal, entre otros. Todo ello refleja un fuerte interés por la equidad, pero básicamente limitado al ámbito de lo fiscal. Es posible que ello haya tenido que ser así y que en realidad no pueda ser de otra manera, como ocurre cada vez que un tema de este tipo es abordado desde una perspectiva sectorial. En tales casos, el manejo del tema presenta limitaciones obvias, propias de las especificidades del sector desde el que se opina y que pueden ser hasta potencialmente contradictorias con el manejo del tema en otros ámbitos de reflexión o de acción pública. Solo una visión sistémica que integre y coordine sus diversos aspectos puede aspirar a superar dichas limitaciones, aunque ello nunca podrá evitar, por cierto, la aparición de nuevos riesgos.
- 4) Un ambicioso intento de integración en dicha dirección fue la contribución de CEPAL (2000). En ella, equidad es vista como “el eje principal en torno del cual se requiere reorientar los patrones de desarrollo de la región” y “la vara fundamental para medir la calidad del desarrollo”, siendo caracterizada como “la reducción de la desigualdad social en sus múltiples manifestaciones”. Esta visión del tema destaca por su amplitud conceptual, con lo que abre paso a múltiples posibilidades de intervención pública para asegurar mejores estándares de equidad, como lo ilustra el siguiente pasaje: “...las fuentes de las desigualdades se encuentran en distintos ámbitos de la vida social y económica y, por lo mismo, las intervenciones en pro de la equidad deben contemplar esta variedad de ámbitos. Por tal razón, es importante ampliar la noción de equidad considerando distintos aspectos que tienen que ver con la igualdad de oportunidades al inicio y en las trayectorias de los ciclos educativos y del empleo; con la igualdad de oportunidades para acceder al bienestar material pero también para participar en decisiones y en el espacio público; con la igualdad de oportunidades para acceder a los sistemas de justicia, a la seguridad ciudadana y a estilos de vida saludables y con la igualdad de oportunidades para acceder a múltiples fuentes de conocimiento e información y a redes de apoyo social y de otra índole”. Esta interpretación ilustra bien la tendencia previamente indicada –hacia la ampliación y reconocimiento explícitos de derechos ciudadanos que se ha venido registrando en las últimas décadas– al mismo tiempo que la propuesta reconoce un solo

<sup>50</sup> CEPAL (1998).

<sup>51</sup> CEPAL (1998), cap. I, 9.



límite objetivo a las posibilidades de intervenciones proequidad: el apego irrestricto a la restricción presupuestaria del gobierno y a la preservación de los equilibrios macro-fiscales. Así, por ejemplo, se dice que: “La vigencia de los DESC ha de ser compatible con el nivel de desarrollo alcanzado y con el “Pacto Fiscal” que prevalezca en cada sociedad, evitando que se traduzcan en expectativas insatisfechas o en desequilibrios macro-económicos que afecten, por otras vías, a los sectores sociales que se busca proteger. La equidad, en este sentido, debe entenderse en relación con el establecimiento de metas que la sociedad sea capaz efectivamente de alcanzar en estas áreas, tomando en cuenta su nivel de desarrollo. Es decir, su punto de referencia es lo realizable”. Al parecer nos encontramos ante una paradoja, o más bien, una contradicción: por un lado se está dispuesto a promover toda intervención capaz de mejorar los estándares de equidad, mientras que por el otro se deja claro que la implementación de tales iniciativas está subordinada a lo que dicte el “Pacto Fiscal” vigente. Tal enfoque subordina la provisión de equidad –un bien público intangible previamente presentado como eje principal y vara fundamental para evaluar la calidad del desarrollo– a lo que el Tesoro Nacional pueda financiar. En la medida que así sea, la propuesta en pauta equivale a una decisión ética que acepta que haya países con derechos humanos de primera clase y otros de segunda o tercera clase. En el límite puede interpretarse como que cada país puede aspirar a la equidad que su Tesoro Nacional pueda financiar.

- 5) Más recientemente, CEPAL (2006) dio un nuevo paso en la profundización de estos temas, enfocando la atención en la protección social dentro de un marco de solidaridad integral que contemple mecanismos contributivos y no-contributivos. En este documento se reconoce la necesidad de asegurar una política social de estado, con objetivos y financiamiento permanente, de modo que la provisión de equidad pueda quedar garantizada sobre bases estables, libre de periódicos vaivenes. Así se señala que: “Un acuerdo o pacto social (y fiscal) es el principal instrumento político de consolidación de las políticas sociales a mediano y largo plazo”. El “blindaje” del segmento del gasto social que se considera más importante cumple un doble propósito. Por una parte, la prioridad recibe el acuerdo político explícito en el ámbito parlamentario y, por la otra, se aseguran los recursos fiscales para el financiamiento, lo que permite dar continuidad temporal a los programas pertinentes. Como puede apreciarse, la perspectiva aquí es diferente a la de CEPAL (2000). Por un lado, se plantea simultaneidad entre los pactos social y fiscal. Esto último parece bastante razonable como descripción de los procesos de negociación política que deberán ocurrir a fin de que se pueda hacer convergir lo deseable (en cuanto a provisión de equidad) con lo posible (en materia de financiamiento). Por el otro lado, se aprecia una propuesta clara en cuando a “blindar” recursos presupuestarios para el segmento prioritario del gasto social. Una forma de implementar esto último podría inspirarse en lo que es la práctica del financiamiento del sistema de pensiones –tanto de beneficios como de contribuciones definidas– a través de contribuciones con destino específico. Aunque la ortodoxia fiscal normalmente rechaza impuestos de ese tipo, quien sabe se puedan explorar alternativas para algún segmento del gasto social que se desee proteger. En todo caso, la propuesta aquí comentada representa una opción ética encomiable ya que busca asegurar una provisión básica de equidad, dejando a las autoridades fiscales la responsabilidad de “crear espacio” presupuestario mediante reasignación de prioridades de gasto<sup>52</sup>.

En resumen, este rápido y selectivo recorrido por la literatura nos muestra que la caracterización del concepto equidad está rodeado de enorme complejidad y que su significado varía – más allá de coincidencias inevitables– según la fuente consultada. A su vez, la idea de armar un pacto

<sup>52</sup> Sin embargo, cabe observar que el documento CEPAL (2006) presenta ocasionales paralelismos con CEPAL (2000), en particular respecto de la necesidad de tomar “...como base las posibilidades fiscales de los países” a la hora de impulsar reformas y de construir “un nuevo pacto social basado en el derecho a la protección social”.

fiscal para promover equidad puede explorarse a través de preguntas que coloquen en blanco y negro donde están las prioridades. ¿Queremos asegurar una cierta provisión mínima de equidad con carácter universal, para lo cual se está dispuesto a adecuar la estructura de ingresos y gastos presupuestarios hasta viabilizar el financiamiento requerido? o alternatively ¿Se toma como dato la capacidad de financiamiento del Pacto Fiscal vigente, y en función de ello se determina la oferta de equidad que es posible proveer a través del presupuesto público? Lo primero significa plantear un “Pacto Ético-Social” y resolver desde su interior los dilemas asociados al necesario “Pacto Fiscal”. Lo segundo significa resolver la provisión de equidad desde el interior de un Pacto Fiscal. Lo primero supone priorizar la oferta de equidad y subordinar a ello el asegurar los recursos necesarios. Lo segundo implica un enfoque en que los equilibrios macro-fiscales vienen primero y luego sigue el resto, incluyendo en ello lo correspondiente a equidad. Lo primero parece ser el enfoque básico adoptado en CEPAL (2006), en cuanto que lo segundo parece ser el inadvertido mensaje de CEPAL (2000). Dada la comprensible influencia del contexto en la determinación de los resultados, no se puede descartar que las buenas noticias transmitidas por las cuentas fiscales en años recientes pueden haber quedado reflejadas en la posición del documento del 2006, mientras que los modestos resultados fiscales de los últimos años de la década pasada y comienzos de ésta, quizá hayan de alguna manera condicionado la del 2000. Lo cierto es que la clásica tensión entre lo deseable y lo alcanzable parece recordarnos, una vez más, cuán estrechos son, los estrechos límites de lo posible.

## 5. Algunos comentarios finales con foco en El Pacto Fiscal<sup>53</sup>

En este ensayo se ha enfocado el estudio de CEPAL (1998) que organizó y sintetizó parte importante del pensamiento de la casa sobre el estado y perspectivas de las finanzas públicas de América Latina y el Caribe hacia fines del siglo XIX. En esta sección final se presentan algunos comentarios complementarios respecto del referido trabajo.

La institucionalidad fiscal formalmente vigente en un determinado momento está caracterizada por instrumentos con valor jurídico-legal como los códigos tributario y aduanero, las normas y procedimientos para regular las etapas del proceso presupuestario, las reglas para el manejo del déficit, la administración de la deuda pública y las relaciones fiscales intergubernamentales, como también, por el conjunto de medios e instrumentos a disposición de las autoridades gubernamentales para asegurar el cumplimiento de lo anterior. Ella refleja visiones, creencias, tradiciones y el resultado de negociaciones políticas y “acuerdos” –frecuentemente implícitos– heredados del pasado<sup>54</sup>. Entre estos últimos destacan los que sirven al propósito mayor de anclar ideas, imágenes e interpretaciones de lo que la sociedad colectivamente entiende adecuado o deseable en materias tales como el nivel, composición y tendencia del gasto y de la tributación; la distribución de responsabilidades de gasto y la atribución de potestades tributarias entre diferentes niveles de gobierno; los modos de intervención y gestión gubernamental; el sistema de financiamiento de los diferentes poderes del Estado y niveles de gobierno, entre otros. Y si bien es cierto que tales “acuerdos” –formales o informales, explícitos o tácitos, parciales o globales, permanentes o transitorios– se refieren principalmente a materias de naturaleza fiscal, conviene mantener presente que ellos solo adquieren sentido pleno dentro de una cierta concepción de desarrollo y visión del rol del Estado en la vida económica y social.

Así es que un Pacto Fiscal puede asimilarse a un complejo “contrato” cuyas cláusulas integran consensos respecto de lo que puede y debe –o no– hacer el Estado en las áreas fiscal, económica y social. Cuando dichas cláusulas pasan a ser cuestionadas y eventualmente rechazadas

<sup>53</sup> CEPAL (1998).

<sup>54</sup> La institucionalidad fiscal se complementa por un componente informal (ej. actitudes, usos, costumbres y tradiciones respecto del cumplimiento de las institucionales formales, tanto por parte de la población contribuyente y beneficiaria, como de las autoridades públicas), de importancia fundamental para determinar el resultado neto de aquella.

por actores que denuncian su inequidad o incoherencia respecto a la realidad circundante y/o a la concepción de desarrollo que la sociedad trata de promover, entonces, las finanzas públicas tenderán a fragilizarse por dos vías.

La primera resulta de conflictos distributivos reflejados en el ámbito del presupuesto público y materializados en presiones sobre el nivel, composición y tendencia del gasto de gobierno. Este es el caso, por ejemplo, cuando los partidos políticos a cargo de la administración del Poder Ejecutivo deciden usar la máquina del Estado –de manera parcial– para financiar con dinero público sus campañas electorales; o cuando el funcionalismo público presiona por la recomposición de sus haberes; o cuando los jubilados reclaman la recuperación de la capacidad de compra de sus pensiones; o cuando los gobiernos sub-nacionales presionan al gobierno central para que aumente el volumen de transferencias en concepto de coparticipación de impuestos, etc.

La segunda resulta del abandono, rechazo, boicot o denuncia del “contrato”, debido a falta de consenso sobre la equidad, validez o aplicabilidad de sus cláusulas. El disenso en esta materia debilita los lazos de adhesión al Pacto Fiscal y –en consecuencia– el grado de cumplimiento de las obligaciones y los ingresos del Tesoro Nacional (ej. a través de maniobras de evasión impositiva y/o el accionar de lobbies dedicados a la captura privada de rentas públicas (ej. presionando por la creación de nuevas y creativas formas de incentivos tributarios y/o la ampliación de los ya existentes).

## 5.1 Acerca de la tradición contractualista

La metáfora del Pacto Fiscal como “contrato” que las partes pueden denunciar y eventualmente rehacer, se inscribe con naturalidad en el escenario político y gubernamental de América Latina. En efecto, este último registra una amplia y larga experiencia histórica en materia de “renegociación” de todo tipo de contratos, desde las más recientes referidas a concesiones en infraestructura física<sup>55</sup>, pasando por comentadas renegociaciones de la deuda soberana<sup>56</sup>, sumado a un heterogéneo listado de “renegociaciones” unilaterales de cursos de política y/o de reglas de juego (ej. abruptas devaluaciones y cambios de régimen monetario, sorpresivos congelamientos de precios y salarios, inesperadas fijación de retenciones a las exportaciones y/o de cupos de exportación, erráticos “stop-and-go” del gasto público, reiterados pedidos de waiver de compromisos gubernamentales establecidos en Cartas de Intención ante organismos financieros multilaterales, reformas estructurales y/o reformas del Estado)<sup>57</sup>, hasta frecuentes “renegociaciones” de lo que algo espiritualmente podría llamarse “la madre de todos los contratos”, esto es, la Constitución Nacional del país<sup>58</sup>.

Cuando se evalúa el conjunto de antecedentes recién aludidos, es difícil escapar a la conclusión de que en América Latina existe una enraizada “cultura” de renegociación de contratos de interés colectivo, promovida por comportamientos no siempre compatibles con este último, de dirigentes de las clases política y tecno-burocrática a cargo de la administración de los poderes del Estado. Dada la dudosa reputación doméstica e internacional que la reiteración de tal conducta implica, no debería sorprender que los costos de transacción de negociar nuevos “acuerdos” o “contratos” tiendan a ser elevados –y probablemente crecientes en el tiempo– debido a los altos riesgos de incumplimiento o default que dicha cultura propicia.

No obstante lo anterior, las propuestas de redefinición de “Pactos” y/o “Contratos” de interés colectivo parece estar en auge en la región. En efecto, en adición a la ya comentada propuesta de “Pacto Fiscal”<sup>59</sup>, la propia CEPAL avanzó posteriormente proponiendo a los países de la región un “Pacto de Cohesión Social”<sup>60</sup> y más recientemente ha retomado el tema, adelantando una propuesta

<sup>55</sup> Estuche et al. (2003), Guasch (2004).

<sup>56</sup> BID (2007).

<sup>57</sup> Lora (2006).

<sup>58</sup> Gargarella (1997, 2004), Schor (2006).

<sup>59</sup> CEPAL (1998).

<sup>60</sup> CEPAL (2004).

de “Pacto Social” o “Contrato Social”<sup>61</sup> orientado a la protección social, con base en derechos que reconoce como universales, pero cuyos estándares de implementación son contingentes a la disponibilidad de recursos derivados del “Pacto Fiscal”.

El metafórico lenguaje anterior ha ido ganando adhesiones entre quienes trabajan en temas de política social, quiera sea para canalizar otras propuestas de “Contrato Social”<sup>62</sup> o para presentar ideas y proyectos propios en materia de políticas de equidad, inclusión y cohesión social<sup>63</sup>. Aunque la terminología de Rousseau (1765) no siempre se use de manera explícita, la idea subyacente en todos los casos parece ser la de identificar un conjunto mínimo de aspectos o condiciones de interés fundamental que todas las partes involucradas –supuestamente– querrían ver atendidas e incluidas en un nuevo “Pacto” o “Contrato”.

Lo anterior da lugar a tres tipos de posibles problemas para quienes se interesan en estos temas. El primero puede apreciarse revisando la literatura aludida en este trabajo y verificando que cada autor o institución ha generado su propia lista de condiciones o aspectos relevantes para integrar un nuevo “Pacto” o “Contrato”, o –usando una terminología algo menos saliente– para orientar el curso de las políticas sociales. Y si bien algunas de dichas listas son coincidentes en algunos ítems, aun cabe preguntar: ¿qué criterios usar para seleccionar el mejor conjunto de tópicos? ¿mejor para quién y en qué sentido?

El segundo problema queda sintetizado por la expresión “el diablo está en los detalles”, esto es, aunque fuera posible lograr un acuerdo entre la partes respecto de los temas, asuntos o tópicos básicos que debieran ser considerados (ej. equilibrio estructural de las cuentas públicas, eficiencia en la asignación del gasto gubernamental, transparencia fiscal, democracia), ello no asegura los acuerdos políticos que al final del día puedan aprobar un “Pacto” o “Contrato”. El que ocurra esto último depende finalmente del detallamiento que se haga de cada una de sus cláusulas.

En tercer lugar, no se debe perder de vista que un conjunto de condiciones generales perfectamente razonables al considerar-las separadamente una a una, no necesariamente constituye un todo armónico y perfectamente compatible entre sí. Esta fue precisamente la contribución de Arrow, quien años atrás mostró con su “teorema de imposibilidad” la dificultad de conciliar simultáneamente un conjunto de condiciones que –en principio– parecían fáciles de alcanzar. Primero que los procesos decisorios o de elaboración del contrato, fueran de tipo democrático, o que no siguieran un proceso dictatorial, segundo que se obtuviera un resultado, eficiencia en el sentido de Pareto, tercero, que las preferencias agregadas de la comunidad fueran perfectamente ranqueables y que se cumplieran propiedades de transitividad y por último, otro criterio que también parecía razonable, es de que la elección pública, respecto de un conjunto de alternativas, llevaran en consideración la preferencia de los ciudadanos, respecto de ese conjunto de alternativas y de nada más, o sea, cuando hay que decidir sobre tal cosa nos concentramos en ver cuál es la preferencia de la comunidad al respecto de estas cosas y nos olvidamos del resto.

Sin embargo, es imposible aunar y respetar simultáneamente estos cuatro principios, por lo tanto, o uno se olvida de eficiencia en el sentido de Pareto o uno se olvida de democracia, o uno admite que trabaja con ciudadanos y con agentes que pueden actuar de manera inconsistente, etc. Evidentemente, en la formulación de un pacto fiscal para América Latina, estaba siempre flotando en el aire de que las condiciones que deberíamos colocar para que fueran discutidas, tenían que ser relativamente pocas, porque de lo contrario surgen inconsistencias (como le pasaba a Arrow) y tenía que ser suficientemente relevante para los actores relevantes que tienen algo que decir en la discusión de un pacto fiscal.

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<sup>61</sup> CEPAL (2006).

<sup>62</sup> Ver por ejemplo Birdsall-Menezes (2004), Birdsall (2006).

<sup>63</sup> Ver por ejemplo Moreno (2005), BID (2006), UN (2005).

En “El Pacto Fiscal” se seleccionaron cinco categorías o grandes temas que parecían que atendían a los intereses de diferentes tipos de actores. Por una parte, se trataba de proseguir la tarea de consolidación de las cuentas públicas, esto es mantener posiciones de relativa disciplina fiscal. En segundo lugar, postulamos la indispensabilidad de mejorar la productividad del gasto público, en tercer lugar, se propuso la necesidad de introducir creciente transparencia en la gestión gubernamental y particularmente en el área fiscal, en cuarto lugar, se introdujo la idea de que tenía que preservarse criterios de equidad en la gestión fiscal y por último, que todo ello tenía que hacerse dentro de un ambiente que respetara criterios democráticos. Con ese último punto, se producía una aproximación al primer punto del teorema de Arrow (democracia), con el tercer punto, mejorar la productividad del gasto público, se producía una aproximación a la idea de eficiencia, en el sentido de Pareto; con la idea de transparencia, se buscaba cambiar la manera cómo se manejaban las finanzas públicas en numerosos países de la región; y con la idea de equidad, se introducía también la consideración de justicia en el razonamiento. En el teorema de Arrow la idea de eficiencia significa al mismo tiempo, elegir un criterio de justicia, pero un tipo de justicia muy especial en el cual las consideraciones distributivas a los conflictos distributivos no tienen cabida, de modo que eso evidentemente no podía ser parte de nuestros argumentos.

Debo decir, sin embargo que en ningún momento se postuló, ni fue discutido ningún criterio explícito de justicia para orientar la búsqueda de mayor equidad. Por lo tanto, apunto aquí a un pilar intelectual flojo de la construcción de este pacto fiscal. Como se privilegió la búsqueda de mayor equidad, se terminó eligiendo el lado más o menos convencional, y en lo que tiene que ver con materias tributarias, postulamos que fuera recomendable para los países de la región, seleccionar esquemas o sistemas tributarios que privilegiaran progresividad en la tributación antes que regresividad. Nos dejaba muy intranquilos un estado de cosas, que hasta ahora no se ha cambiado, y por el contrario se ha solidificado, que es la extraordinaria preeminencia de los impuestos indirectos en las estructuras tributarias de América Latina.

Por el lado del gasto público postulamos el aumento de la productividad de este gasto, pero carecíamos considerablemente de información básica, de buena calidad respecto de lo que eran las formas más redistributivas de ese gasto público.

Posteriormente, la CEPAL ha publicado textos interesantes en los cuales se hace referencia al impacto que puede tener el gasto público en educación primaria, secundaria y también en salud y nutrición, y en este sentido, esta información no estuvo disponible para nuestro razonamiento.

Como se puede apreciar, el tratamiento del tema de equidad, fue hecho de manera muy convencional, sin ninguna sofisticación mayor como la que supondría adoptar una idea, noción o teoría de justicia. Personalmente siempre lo relacioné con un posicionamiento de tipo rawlsiano en el que se acepta implícitamente, pero sin nunca traerlo al centro de la discusión, la idea que debería en igualdad de condiciones, privilegiarse la mayoría de los que se encontraban inicialmente en una posición más desprotegida. Creo que lo que se ha logrado durante estos diez últimos años y que se encuentran en las estadísticas de la CEPAL, y que seguramente ustedes van a tener más información, este aumento del gasto público social, atestigua al menos, que esa recomendación en la región fue aceptada.

En primer lugar vale la pena mencionar que a pesar de haber dedicado un espacio importante al tema equidad, El Pacto Fiscal no explicita el alcance y profundidad de los compromisos ético-políticos que mantiene con dicho objetivo. El compromiso con este último se percibe claramente, por ejemplo, en la búsqueda de progresividad en el diseño de instrumentos fiscales, tanto del lado tributario como del gasto público. Sin embargo no explicita cuál sería la estrategia más conveniente para mejorar los estándares de equidad, esto es, si se considera mejor impulsar inicialmente la construcción de “islas” de equidad en algunos ámbitos o sectores seleccionados (ej. nivelar la posibilidad de ingreso de todos los postulantes a la educación primaria), o si se considera preferible

impulsar –simultáneamente– el desarrollo de verdaderos “continentes” de equidad (ej. nivelar las posibilidades de acceso de la población a educación, salud, vivienda y seguridad social, por ejemplo). De más está decir que los recursos fiscales requeridos en cada caso no son los mismos.

En segundo lugar se nota la ausencia de referencias acerca de otro dilema clásico en materia de estrategia para alcanzar el objetivo deseado: ¿gradualismo o tratamiento de choque? Dada la naturaleza esencialmente política del proceso de discusión de un Pacto Fiscal, cabe imaginar que la clarificación de este aspecto deberá ocurrir a lo largo del camino. En todo caso, dado que las reformas involucradas por la negociación y aprobación de un nuevo Pacto Fiscal son eventos poco frecuentes y que tienen lugar en ambientes de “segundo mejor”, cabe imaginar que aquéllas estén rodeadas de considerable incerteza –en el sentido de Knight– respecto de lo que serían sus posibles resultados. Todo ello sugiere –a priori– ventajas a favor de la adopción de procesos de reforma de tipo gradualista<sup>64</sup>.

En tercer lugar cabe reconocer que cuando las autoridades de un país se proponen organizar y llevar adelante un nuevo Pacto Fiscal, por lo general tienen que tratar de alcanzar varios objetivos, y no tan solo uno, aunque éste sea tan importante como lograr mejores estándares de equidad<sup>65</sup>. Ello hace que un proyecto de Pacto deba ser planteado en un contexto que trasciende lo meramente fiscal. Dado que un Pacto Fiscal tiene implicaciones políticas que van mucho más allá de lo que podría derivarse de una convencional reforma tributaria o presupuestaria, idealmente se requiere, por ejemplo, explicitar la concepción de desarrollo que las autoridades tratan de promover. En la medida que esta última coincida con una perspectiva amplia e integral de desarrollo, la política social probablemente tratará de impulsar la formación de “continentes” –en lugar de “islas”– de equidad, y en consecuencia deberá pensarse en un proyecto de Pacto Fiscal más ambicioso e innovador. En otras palabras, si las autoridades manejan una interpretación del desarrollo como un proceso de progresiva expansión de las libertades individuales en diversos planos (ej. económico, político, social y cultural, entre otros) que se refuerzan y potencian mutuamente, a la Sen<sup>66</sup> entonces deberán pensar en un proyecto de Pacto Fiscal mucho más exigente que el que podría inspirar una visión del desarrollo estrechamente tecnocrática, como la que ha dominado la literatura económica de las últimas décadas y que tuvo en Lewis uno de sus representantes paradigmáticos<sup>67</sup>.

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<sup>64</sup> Erbas (2002).

<sup>65</sup> El título del trabajo puede invitar a razonar en términos de la regla de Tinbergen según la cual las autoridades a cargo de la política económica precisan controlar al menos tantos instrumentos como objetivos deban alcanzar. Según lo anterior, un Pacto Fiscal (el instrumento) siempre podría asegurar los estándares de equidad que se hubieran fijado (el objetivo). Sin embargo, este tipo de analogía es inapropiado para el caso en pauta debido a que desconoce los supuestos de linealidad que subyacen a la referida regla, y también, porque arbitrariamente supone que un Pacto Fiscal puede ser dirigido a tan solo un objetivo de política pública.

<sup>66</sup> Sen (2001), CEPAL (2000).

<sup>67</sup> Según Lewis (1954) el desarrollo económico consiste “...en el proceso por el que una comunidad que previamente ahorra e invertía 4 ó 5 % del ingreso nacional, o menos, se transforma en otra que pasa a ahorrar voluntariamente alrededor de 12 a 15% del ingreso nacional, o más. Este es el problema central, porque el aspecto central del desarrollo económico es rápida acumulación de capital (incluyendo conocimientos y habilidades con el capital”. Esta perspectiva, de más está decir, no tiene conexión evidente con consideraciones de carácter distributivo, ni con criterios de equidad, justicia o ética.

### III. Ponencias

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#### 1. Adrienne Cheasty

Thank you very much. Mr. Machinea, very distinguish participant. I am speaking on behalf of Teresa Ter-Minassian, who actually withdrew the conference in the last minute, as Mr. Machinea explained.

She sends her very sincere apologies, this conference is very special to her in particular for its twenty anniversary, and because it shows cases originally of fiscal debate in Latin America, which brings me to my first point.

On behalf of the MIF, and probably, on behalf of everybody here, I would like to say thank you to CEPAL, because Latin America is in better fiscal shape than I think was every considered possible 20 years ago, and at least some of the credit must go to CEPAL, and to this seminar, for its success in raising awareness on fiscal issues in the region offering and influential forum for policy makers and academics to debate policies and keep up with best practices and having a regional influence by CEPAL well targeted resource agenda and publications.

This discussion is about the fiscal pact, so the fiscal pact is one of the most important example of a very well targeted agenda, despite the fact that I have said all these nice things about the fiscal situation in Latin America, it is clear that the work agenda in the pact remains unfinished and it will be probably valid for the next 20 years, so I want to use the rest of these comments to point to specific agenda items that could form the work under the umbrella of the pact for the next 20

years, just to remind you of the five fundamental objectives of the fiscal pact to consolidate fiscal adjustments, to raise productivity public spending, to make fiscal activities more transparent, to promote equity and to support the development of democratic institutions.

I am going to spend most of the time on consolidating the ongoing fiscal adjustments, after all come from the MIF. My main point is good fiscal performance may not be robust to unfavorable international environment. A recent study of the Fund suggests that more than half of variation in Latin America's GDP can be explained by external shocks.

So even though the starting position in the region is good, a positive output gap, it is also clear that inside risk has increased for the region with the recent instability of the world stock markets, the base line forecast you see in this chart was done by our Western Hemisphere regionalized team near the end of last year was before the recent turbulence, by the way I should mention the charts you see are from the original outlook, while the consensus is that Latin America is much better prepared to other external shocks than it was in the past, you can see from the risk analysis that growth could tell us quite sharply line, and it would probably be in the base line, when I am revising our projections.

This chart shows the fiscal situation going to 2008, the significant revenues gains of the last four years, you can see how high fast revenues are rising, these are already tailing off, where spending growth is not, it is still accelerating and so the primary sources that have been built up under very tough circumstances, they are beginning to arouse.

This chart is more one and one, because it shows expenditure grows has not been uniform everywhere, it began to be moderate in South America and in Mexico. So returning to my first point, the main topic of discussion should be how best to insulate Latin America fiscal gains over 2000, from potentially out-coming targeting fiscal.

The second word is to consolidate the issue that some aspects of the political environment would be different in the coming 20 years, here I am thinking in particular of the impact of financial globalization on fiscal policy, so I am talking about potentially already evidence, easier access to market financing, maybe and of course we will see more original capital losses.

So, a first question is whether easier market financing would strengthen our undermined fiscal discipline. On one hand, we have seen that the market has been disciplined on fiscal policy. A study by the Fund of 2007 presents a 2% increase in the GDP in the fiscal deficit of the remained original markets raises foreign and domestic industries by 20, 30 points in respectively, although in an unhelpfully bumpy wave varies continuously.

However, on the other hand going forward it is possible that foreign financing remains abundant, the effect of governance in incredible risks premiums maybe dumped and this may reduce the physical costs of fiscal slippage, so we have a policy measure here, we need to see measures to strengthen market discipline of fiscal policy, and this will include moving away from domestic capture sources of governance, financing and opening up of the market, as well as given the market more information about, by increasing transparency, information and government borrowing, public debts, fiscal risks.

A second implication of easier access to market financing is its option for countercyclical policies will increase, this sounds good, but the challenge is how to install discipline and get countercyclical policies in good times, since in Latin America historically for savings and dawn terms offset the very pronounced pro-cyclical policies of outterms. Teresa has co-edited a book which looks such instruments, since all of you work on fiscal rules, secondly adjusts fiscal balances, expenditure targeting.



So, just to take a couple of examples, there are fundings that are coming up with suggests that cyclicly adjusted balances could be improved from public purposes, by, for example, taking into a kind of chain in an output composition when estimating output gaps. By using a last estimate directly from tax and expenditure laws rather than the rule of thumb that we pretend to use, by looking at times economic outputs and time balances rather than their levels, because the score for error goes on quite significantly and by establishing a row for independent fiscal agencies.

Now, talking about the potential for contra-cyclical fiscal policies, we have to re-look the size of fiscal multipliers as financial globalization increases, because this may be different than in the last 20 years, for example, we may see the last credit out. On the other hand we may see more sensitivity on domestic industry rates on fiscal policies as government gives up different sources of financing, we see more trade openings, which it is supposed to reduce fiscal multiplier, although in fact a study we did on OCDE countries, this impact is quite limited by 10%, and finally multiplier is maybe different because it is higher, so with better access to credit may become more redundant, that could offset fiscal contraction by increasing borrowing.

A related question here is whether debt tolerance in the region remained the same, a few years ago estimates of same ratio were depressing low or very low, around 25% of GDP, but more recently two things have happened in Latin America in emerging markets, the terms on which domestic market has improved. We see now fixed coupons with Mexico that has succeeded in issuing of 30 year coupon bonds and so we see they show domestic as a total debt has raising significantly, and also the shares of domestic currency by non residents has risen, something we have told that it could never happened. So both of these facts have implied lower risks, suggesting that the tolerance of emerging markets for that is largely to be increasing manouvres, this sounds good because it offers governments moving forward much increase room to manouvre.

On the other hand, it risks a resurging of all problems, it will be important to maintain a balance between local and foreign currency gaps to reduce the temptation to inflate in the way local gaps, as well as to establish borrowing bench markets, for example, for corporates, more over, it would be important to ensure that government borrowing banking system does not lead to inefficiencies and the late development of domestic capital markets, and finally, it is still not clear whether original sin has been redeemed from it or whether it will return if lower credit tightness.

So, it is too soon to congratulate ourselves on increasing that tolerance. I want to finish this discussion on the topic on fiscal consolidation, by touching on the capitalized flow issue, since Latin America policy makers are frequently struggling with the dilemma of how much to use the exchange rate rather than fiscal policy or sterilization, or capital controls, in dealing with capital inflows. We have done a lot on source here, particularly in the wake of the Asian crisis, but this prescription is not so new, where there are cases were fiscal tightening is not appropriate, very often it is the right instrument.

Here the new targeting in this domain is pre-positioning fiscal policy. Since we expect high capital markets volatility, and this is my message that we need to be considered, how to anticipate the downturn and be ready to respond to it, high capital market would for example, the project was projected actually before this turbulence a three folding capital flows to Latin America 2008, which is amazing, the message is that fiscal policy should be prepositioned to be as credible as possible and having much flexibility that could be possible, so it can respond optimally to any future shocks that we think may hit the region in the next year or couple of years.

So, this gives me a good lead to the next core of objective in the fiscal pact, mainly to raise the productivity on public expenditure, just a couple of remarks here for Latin America at the moment it seems to me the prepositioning is largely means savings on the spending site because as we saw revenues are desacellerating along with growths and the outlooks for revenues have been

quite pessimistic. So, in my view, perhaps the key undone, unfinished, perhaps on starting fiscal reform for the region is to tackle budget strategies, mandatory expenditures revenues e-marking someone mentioned before addressing this reform in the year 2000, but the abundance of revenues since then have dumped incentives, taking on this difficult political battle, it maybe become imperative to do this in the near future.

A second point is the infrastructure gap still remains to be closed and so it will be wrong to rely on public investment as a fiscal adjustment mechanism which has usually been the case in the past. Instead it will be imperative make public investment more efficient, let me mention specific issue, the goal of improving public investment by removing an internal constrain on high return investment by well run public enterprises. One of the problems we have seen in public enterprises is that they tend to create contingency liabilities for governments with the perception they will be actually built up because they belong to the government.

So, it is quite to ensure that the financial problem of public enterprises don't come as a surprise to governments, when it is too late to do much about it, that so much emphasis has traditionally been placed on including public enterprises in fiscal targets, remember Mario Marcel is a very distinguish critic on this approach. He pointed out the problem, that the inclusion of public enterprises in fiscal targets contrain investments by good enterprises which otherwise could contribute more to what they have been doing.

So, under pressure from Latin America, after growth, the Fund came with the criteria for permitting low risk public enterprises to be excluded from fiscal targets, these are the ones you would expect defining good public enterprises, independence, good governance, financial stability, etc.

To our gratification we are finding that already some countries have begun to use these criteria as a road map for public enterprises form and reduction of an important category fiscal risk, so we are beginning to see public enterprises form and a kind of a direct attack on fiscal rescue and public enterprises. As a fertile area for potential progress over the next 20 years, because certainly it will not be happening overnight.

This work is very much in line with the target goal of the fiscal pact to make fiscal activities more transparent. In fact, if I have to name one successful and concrete relation in fiscal policy over the last 20 years, I think the use of the power of transparency to influence fiscal policy would have to rank almost at the top. It is also a very clear area where more work could be done, standards and codes to best define practice. In the Fund we have introduced some reports on standards and codes and the ITI in this focus on well producers, but this still needs to be updated and we would like to see more evidence of the countries benchmarking against international standards.

It is also clear that comprehensive sites and monitoring can help to reinforce fiscal risks both traditional ones and emerging new ones. I mentioned risk public enterprises but there are also new types of risks that need to be mastered in public type initiatives in more and more complex and financially engineering government guaranties and with liabilities, and this could be expanded to cover pension and environment, since these are likely to be big issues.

So, maintaining fiscal transparency and applying them should be a major fiscal work for the next 20 years.

I think on the fiscal pact to promote equity it is a little depressing, it is all obvious for us, something has been made and the cost of inequities has become higher and harder to ignore. Some explanations for these inequities costs by fiscal turbulences persuasive and I very much welcome our very thoughtful examination of the core of the problem, but speaking from a policy perspective

we can't just sit back and so I am very happy that Juan Pablo Jimenez excellent project is designed to confront this issue, and to identify policies strategies.

In my outsider view, priorities have to be overcome in Latin America to have an effective income tax and more generally to improve compliances, but I look forward to get a deeper look of the issue in Juan Pablo's out-coming session.

Finally, I think this goes to congratulate democratic institutions on the first goal of fiscal pact. On the fiscal side budget transparency and access to information have obviously strengthened public transparency and accountability.

It seems to me that in the countries fiscal responsibility laws demonstrate the maturing of democratic process in the region. The public is gradually coming to understanding, that it is not enough for fiscal policies to be democratic, but they also have to be responsible. Here we have made some progress mainly with failed experiments in learning how to make fiscal responsibility legislation better.

Transparency and accountability key, for example, broad covering is the key to avoid distortion in allocating responsibilities in different parts of the public sector. We find rules that are probably important, because there are policy makers with more space to manoeuvre, and if rules have to be numerical, it is even more important to follow best practices on transparency in the region.

Effective enforcement mechanisms are also key for the credibility on the framework and it is also important that such legislation being integrated with a broad order environment of public finance legislation.

So, we think we are still in the influence of fiscal responsibility legislation for a lot of scope for financing such laws and exploring non political institutions to back their application along the line of Chile's very successful institutions, these are the most interesting projects for the next 20 years.

So, please CEPAL keep heading into this work agenda, I hope I have not been too broad scope in my wish for the solutions of fiscal problems. It is clear your leadership is needed over the coming two decades. Thank you very much for the work so far and good luck.

## **2. Mario Marcel**

Muchas gracias por tener nuevamente la posibilidad de participar en este seminario, yo creo que he estado en más seminarios que Ricardo, porque vengo de la época de Juan Carlos Lerda a participar en este foro.

En esta oportunidad toca discutir dos planteamientos de Juan Carlos Lerda y de Vito Tanzi, donde básicamente lo principal que tienen en común es el destacar la relación que existe entre el lado del gasto y el lado del financiamiento del sector público y profundizan sobre algo que en buena medida enfatizó la propuesta de pacto fiscal de la CEPAL, que es tratar de romper esta compartimentalización, con la que históricamente miramos en las finanzas públicas.

Creo que romper esa compartimentalización es válido también respecto de aquella clásica categorización de funciones públicas, cuando Musgrave y Musgrave hablaban de estabilización, de asignación de recursos, de redistribución. Vito le agrega crecimiento, y creo que hoy en día muchos de los avances, muchos de los desarrollos en el pensamiento y en el diseño de políticas fiscales de alguna manera conectan estas distintas funciones, y voy a dar algunos ejemplos tomados de la situación latinoamericana hoy día, que ilustran esto. Y quizás visualizar esos vínculos entre estas

distintas funciones también nos pueden ayudar a responder algunas de las preguntas que surgen en torno a las finanzas públicas en la región.

Para analizar las finanzas públicas en América Latina, la verdad es que no es fácil generalizar, siempre vamos a encontrar excepciones, pero posiblemente excluyendo un par de casos en la región, hay dos preguntas relevantes. La primera es que, si uno cree que una de las funciones fundamentales del Estado es reducir la pobreza, reducir la desigualdad y le podemos agregar también hacer funcionar las instituciones, por qué una región que tiene tantos déficit en estas tres dimensiones tiene Estados que son relativamente pequeños. Y la segunda pregunta, relacionada con la anterior, es por qué si el pacto fiscal es una idea tan poderosa en el sentido de tratar de vincular compromisos, obligaciones por parte del Estado hacia la ciudadanía a cambio de financiamiento, ha costado tanto traducir esta idea en reformas importantes del lado tributario en América Latina.

Aunque siempre es importante poner el análisis en un contexto más amplio, mirar lo que está ocurriendo en otras partes del mundo, me parece que también es importante reconocer ciertos fenómenos que son propios de la región. En la tradición de los hechos estilizados, lo que podemos ver en la región es que tenemos Estados en los cuales el gasto público representa en promedio alrededor de 22%, 23% del producto, en que la carga tributaria es considerablemente más baja y que estamos entre 3 y 4 puntos del producto por debajo de lo que correspondería la carga tributaria para el nivel de desarrollo que tienen nuestros países.

El gasto social también está desalineado respecto de lo que corresponde a nuestro nivel de desarrollo, y las brechas absolutas, son de enormes magnitudes. Si calculamos en términos per cápita, el gasto social en América Latina es más o menos la vigésima parte de los países desarrollados. También, buscando hechos estilizados, tenemos que observar en la estructura tributaria de los últimos años una caída muy fuerte de la recaudación proveniente de los impuestos al comercio exterior, que ha sido en buena medida compensada con el aumento de la recaudación del IVA y, si miramos los últimos quince años, tenemos que los ingresos fiscales han aumentado más o menos el equivalente entre 3 y 4 puntos del producto, de los cuales la mitad se fue a reducir los déficits fiscales en la región y la otra mitad incrementó el gasto social, pero siempre, como enfatizaba Vito, con tendencias diferentes entre los países.

Otra característica de nuestra finanzas públicas es que tenemos un número importante de países en los cuales parte importante del financiamiento fiscal sigue proviniendo de los recursos naturales: tenemos tres países en la región donde el 40% de los ingresos fiscales provienen de recursos naturales. Otra característica de nuestra región es que los gastos tributarios y los gastos extrapresupuestarios siguen siendo una parte importante de los recursos que maneja el Estado. Incluso, en los países con una mayor proporción de ingresos fiscales que provienen de recursos naturales, tenemos gastos tributarios mayores.

Tenemos un número importante de países que han tenido dificultades para aprobar reformas tributarias. Hay países que aplicaron la lógica del pacto fiscal casi al pie de la letra y finalmente fracasaron en sus reformas. Creo que el caso de Guatemala es particularmente dramático, por ser el país que tiene la menor recaudación tributaria de la región, habiendo pactado, después de un conflicto de muchos años, un paquete de mejoras sociales y el financiamiento correspondiente. Luego de tener una discusión legislativa muy compleja, finalmente la reforma no pudo pasar, ahora tenemos un nuevo gobierno que está tratando de retomar el tema. Así como ocurrió esto en Guatemala, también ha ocurrido en Paraguay, en México durante la administración del presidente Fox, en Costa Rica, en Colombia, en Chile en el 2003. Es decir, la idea de reformas tributarias con compromiso del lado del gasto en materia de destino y eficiencia en el uso de los recursos, en muchos casos no ha sido suficiente para lograr empujar una reforma tributaria sustantiva.

Pese a eso, del lado del gasto, creo que tenemos que reconocer que, aún cuando podamos ser críticos de los niveles de la focalización de ciertos componentes del gasto público, también hemos tenido avances importantes. Tenemos un número significativo de países que han aprobado leyes de responsabilidad fiscal, hemos tenido un reforzamiento de la disciplina fiscal prácticamente en toda la región, ha habido innovaciones importantes en política social.

Entonces, cuando uno recorre estos temas, uno tiene que preguntarse qué es lo que está detrás, volver a estas dos preguntas que yo planteaba en un comienzo, y creo que hay que reconocer que hasta el momento hemos funcionado con un cierto modelo implícito, que en algunos casos es bastante explícito en término de las cosas que se escriben sobre la región, en el sentido de que en América Latina la carga tributaria no puede subir porque la gente desconfía del Estado, porque el Estado es ineficiente y corrupto. Y por lo tanto, antes de que podamos hacer cualquier cosa por el lado del financiamiento fiscal, tenemos que resolver todo este conjunto de problemas.

La verdad es que esta es una afirmación o una visión que es importante debatir. Vito menciona en su documento estos resultados de latino-barómetro, donde al mismo tiempo la gente demanda abrumadoramente aumentos de gasto fiscal en áreas como pensiones y salud, y al mismo tiempo señala que el Estado no hace un buen uso de los recursos. Yo creo que la realidad es un poco más compleja y creo que se pueden repasar algunos elementos adicionales que están detrás de estos fenómenos que pueden ayudarnos a tener una explicación más completa.

En esta idea de vincular compromisos de gastos con reformas por el lado de los ingresos, se ha subestimado el peso de los intereses corporativos y la influencia de las elites sobre la toma de decisiones. Si somos una región tan desigual como lo somos, esa desigualdad también se refleja en términos de la influencia, la capacidad para defender ciertos intereses corporativos.

Lamentablemente tenemos casos en los cuales de alguna manera la estructura institucional de algunos países ayuda a que eso ocurra, por ejemplo, países que requieren super mayorías para aprobar reformas tributarias, involucran institucionalidades en las cuales es muy difícil vencer el poder de veto de ciertos sectores de la ciudadanía.

También tenemos que reconocer que hemos subestimado los problemas de gestión de recursos en el nivel subnacional. Es decir, durante bastantes años pensamos que el canalizar más recursos hacia los municipios, hacia los gobiernos regionales era una manera de soslayar los problemas que tenían las instituciones del gobierno central y nos hemos encontrado con otros problemas en el nivel subnacional.

Sin embargo, hoy en día, una vez que ya hemos ido abriendo ese espacio, de ir canalizando las reformas tributarias, o lo que logramos hacer en el nivel subnacional, nos encontramos con que es muy difícil responder a esta idea de vincular lo que podemos hacer por mejorar la calidad del gasto con lo que podemos hacer por el lado del financiamiento.

Yo creo que en ese sentido es interesante lo que acaba de pasar en México con la reforma tributaria, en que además de haberse logrado finalmente aprobar una modificación por el lado de los impuestos, y yendo una parte importante al nivel subnacional, al mismo tiempo se ha acordado como parte de la misma reforma requerimientos de transparencia y de rendición de cuentas en el nivel subnacional. Esto es importante, porque tal vez antes actuábamos un poco más ingenuamente, pensando que en la medida que los gobiernos subnacionales estaban más cerca de la gente responderían con seguridad a las prioridades de las personas por esa aproximación, una especie de osmosis fiscal.

También tenemos que evaluar los problemas de economía política en el diseño de los programas públicos. En general, hasta ahora, nuestro *conventional wisdom* ha sido de que del lado del gasto lo que tenemos que hacer es focalizar en los más pobres, pero el punto es que la economía

política de esta focalización, cuando estamos hablando de reformas, no es muy fácil de resolver. ¿Cómo le decimos a la mayor parte de la población, a los sectores medios que les vamos a aplicar mayores impuestos, para financiar básicamente servicios que van a los más pobres y al mismo tiempo vamos retirando ciertos servicios del camino?

Si vemos la experiencia de países que han sido más exitosos por el lado fiscal, normalmente nos encontramos una suerte de pacto con los sectores medios. En la medida en que tratamos de hacer rendir más los recursos, tenemos recursos que son muy limitados y nos vemos presionados a focalizar más y a entregar más discrecionalidad a los organismos del Estado. Eso tiene un costo en términos de apoyo ciudadano hacia reformas fiscales.

Creo también que hemos subestimado los problemas que la volatilidad fiscal genera hacia el interior de las finanzas públicas. Como señalaba Adrienne, en la región tenemos una historia de volatilidad importante, ha costado mucho desarrollar mecanismos contracíclicos en finanzas públicas y esto no sólo tiene un costo macroeconómico, sino que también tiene un costo en la efectividad de lo que el Estado hace. Por un lado, la seguridad o la estabilidad del financiamiento para ciertos programas claves es incierta, el mejor ejemplo es el de la inversión, y por otro lado la volatilidad fiscal genera muchos comportamientos oportunistas. En buena medida esto se refleja en el hecho de que países con un componente importante de financiamiento basado en recursos naturales también tienen gastos tributarios importantes.

Esto está documentado en la literatura en los países más desarrollados, pero hay aquí una suerte de maldición de recursos naturales, en el sentido de que normalmente en períodos de expansión cuando tenemos fuerte aumento de precio de *commodities*, fuerte incremento de ingresos fiscales, y se trata de gastar esos recursos extraordinarios, muchas veces las ideas que surgen en esos contextos no sólo del lado del gasto sino que además del lado de los impuestos, diría especialmente del lado de los impuestos nos va generando una distorsión del sistema fiscal que es importante.

Creo que en este sentido también, hablando de América Latina, tenemos que reconocer los problemas que impone la informalidad. Cuando el Estado es más pequeño no necesariamente deja más espacio al mercado, muchas veces deja más espacio a la informalidad. Me parece que ahí hay otro tema que vale la pena conversar, y por último creo que también en alguna medida hemos sobrestimado la capacidad de que las mejoras que se van haciendo del lado del gasto puedan ser percibidas por la población.

Sabemos que no son rápidos los cambios en la asignación de los recursos, los cambios en la eficiencia en el uso de los recursos demoran en percibirse por parte de la ciudadanía, y por lo tanto, hay un tema de *timing* relacionado con la lógica del pacto fiscal que también es compleja.

Complementando a Juan Carlos y a Vito, yo veo en el futuro cambios en el área socio-demográfico que, en general, apuntan en la dirección de aumentar las demandas sobre el Estado. El más notorio de éstos es la transición demográfica, el envejecimiento de la población en América Latina. La transición demográfica es un fenómeno que es mucho más rápido que el experimentado en los países desarrollados. Nuestros países no tuvieron *baby-boom*, por lo tanto estamos haciendo la transición mucho más rápido, la caída en las tasas de natalidad fue mucho más fuerte y por consiguiente tenemos una región en la cual básicamente dentro de los próximos veinte, veinticinco años vamos a estar doblando la proporción de adultos mayores en la población. Si miramos por ejemplo las encuestas de opinión, el mismo latino-barómetro, segmentado por tramos de edad, vamos a ver que los adultos mayores, en América Latina, tienen una demanda mucho mayor por gasto fiscal que lo que tienen las generaciones de nivel intermedio.

Otro fenómeno que está incidiendo en este sentido es la mayor autonomía de la mujer, porque en América Latina, ante la ausencia del Estado como prestador de servicios sociales, han

sido las familias las que en buena medida han reemplazado, han cubierto ese papel que no ha estado cumpliendo el Estado. Un buen ejemplo de esto es el cuidado de los adultos mayores, ese rol de las familias es un eufemismo para hablar de la multiciplidad de roles que han asumido las mujeres en nuestras familias. A medida que las mujeres han ido ganando en autonomía, que las familias se han ido reduciendo en tamaño, y que al mismo tiempo aumenta la proporción de adultos mayores, las probabilidades de que las familias sigan resolviendo los problemas que no puede resolver el Estado son bastantes bajas.

Creo que los aumentos de cobertura educacional también son un fenómeno que van a ir presionando al Estado, y lo vemos hoy día en la universalización de la educación básica, que genera mayor presión sobre la cobertura de la educación media y la universalización de la educación media va a presionar el acceso a la educación superior. Tenemos países que están en distintos estados de este proceso, pero en todos ellos podemos ver fenómenos de este tipo. Y creo también que la globalización también tiene un lado que genera demandas sobre el Estado. Involucra una mayor complejidad de las relaciones económicas y de las relaciones sociales, requerimos más instituciones que sean capaces de arbitrar en estos procesos, y por lo tanto de ese lado, también tenemos una demanda por la acción del Estado.

A mí me parece que en estos momentos la discusión no es tanto si en el futuro vamos a tener Estados más pequeños o más grandes, pues tenemos en los procesos de democratización, de globalización y de transición socio-demográfica una demanda muy fuerte por participación estatal. Entonces más bien lo que tenemos que preguntarnos ahora es cómo hacemos para enfrentar esa demanda futura, en un contexto que no es de crisis. Hay algunas propuestas que estuvieron en las presentaciones principales.

Yo simplemente voy a dar los títulos que para mí son temas de agenda. Creo que es importante seguir avanzando en transparencia en materia de las finanzas públicas. Mientras la población mejor entienda cuáles son los dilemas de finanzas públicas, más fácil es discutir temas tributarios. En este sentido hemos avanzado en transparencia por el lado del gasto, pero creo que tenemos mucho que hacer por el lado de los ingresos. Así como ya hay varios países de la región que tienen indicadores de desempeño, que hacen evaluaciones del gasto, tenemos muy poco por el lado de los gastos tributarios. Tenemos que avanzar en materia de estabilización fiscal, creo que lamentablemente en este ciclo que está terminando no logramos avances muy sustantivos, y creo que vamos a ver sus consecuencias en los próximos años.

Es importante abrir espacios a esa voz ciudadana y reconocerla al momento de pensar los pactos fiscales, es decir, incorporar la lógica del pacto fiscal al mismo diseño de los programas. Creo que desde el punto de vista de la protección social es clave hacernos cargo de los temas de inseguridad de la población en la región, eso es válido tanto para el lado económico, por ejemplo respecto de los temas de envejecimiento, de riesgo de enfermedad, pero también lo es para el tema de seguridad ciudadana. Creo que tenemos espacios para ampliar de alguna manera la musculatura del Estado en términos de involucrar al sector privado en ciertas prestaciones, pero para esto, lo que hemos descubierto es que tenemos que ser capaces de contractualizar mejor nuestras relaciones con el sector privado, y nos queda todavía bastante por avanzar en sistemas de gestión y de presupuestos por resultados.

En la región, en general los países cuando hablan de presupuesto por resultados, están pensando en indicadores, tenemos muchos países trabajando en generar indicadores en la región, pero lamentablemente los indicadores ayudan poco a tomar decisiones. Nos ayudan a formarnos algunos juicios de cómo está funcionando el Estado, pero no nos responde las preguntas básicas de asignación de recursos.

Tenemos mucho por avanzar en materia de evaluación de programas, de formulación de política pública y de asignación de recursos. Es decir, tenemos una agenda que tiene algunos elementos que son comunes con las ideas que se plantearon en torno al concepto de pacto fiscal, pero creo que a estas alturas podemos también aprender bastante de las cosas que han resultado y de las que no han resultado, y por sobre todo eso, tenemos que estar conscientes de cuáles son las demandas que el Estado va a estar enfrentando los próximos 25, 30 años como producto de los cambios que se están experimentando. Miremos lo que ocurre a nuestro alrededor, pero miremos también lo que está pasando con nuestra gente y de esa manera vamos a poder llegar a soluciones y a propuestas más efectivas desde el punto de vista fiscal de que lo que hemos logrado hacer hasta ahora. Gracias.

### 3. José Luis Machinea

Voy a dividir mi presentación en dos partes, repasando las cosas que escuché recién de Adrienne y Mario Marcel. La primera es una rápida mirada a las últimas décadas desde tres ángulos, la macro, la equidad y las reformas. Los ajustes de los ochenta marcan la ruptura del pacto fiscal que había en América Latina, pacto fiscal que obviamente se iba debilitando de la mano del aumento de la inflación, del aumento del endeudamiento. La crisis de la deuda tiró por la borda ese pacto fiscal, el aumento del peso de los intereses aumentó el gasto alrededor de seis, siete puntos, y después la contracción muy fuerte del gasto determinó una ruptura casi final del pacto fiscal sobre el cual se había basado cierto acuerdo social hasta ese momento.

¿Cuáles fueron las consecuencias de esta desarticulación del pacto fiscal? Hay tres elementos que me parecen relevantes. El primero es que el Estado deja de invertir en infraestructura. Este había sido un rol tradicional de las políticas públicas, para bien o para mal, con sus defectos, pero con la crisis de los ochenta el Estado deja de invertir en infraestructura. En segundo lugar, el gasto social disminuye, en el orden del 35, 40% por habitante durante los ochenta, una caída muy fuerte. Las políticas sociales comienzan a dejar de ser universales, quiero volver sobre este tema que Mario abordó recién, dando lugar a la focalización. Este tema me parece de especial relevancia en América Latina hoy día, pues yo no estoy muy de acuerdo en que hay que focalizar siempre el gasto social, creo que eso quita dinámica, hace que las clases medias no se involucren, no demanden mejor salud. Y si las clases media no demandan mejor salud y educación porque sus chicos van a colegios privados, tenemos una sociedad dual, con hospitales para pobres y colegios para pobres. Yo creo que la idea de universalidad, al menos en la educación primaria y secundaria, también en la salud, es un esfuerzo que tiene que hacer la región. Podemos discutir cómo, pero esta idea que hay que focalizar siempre me parece que no ayuda a la equidad, no ayuda a la ecuación social.

Y en tercer lugar un tema relevante de los ochenta es que se desarticula el servicio civil, que era un servicio civil razonable en la región. Caen los salarios en un 30%, 40%, 50%, y a partir de ahí empieza la desarticulación del servicio civil en la región.

Después tenemos los noventa, claramente una década de políticas fiscales procíclicas en promedio en la región. Los escasos períodos de crecimiento no contribuyeron a generar políticas anticíclicas, o sea, no ahorramos en el momento de las vacas gordas, y cuando llegó el momento de las vacas flacas, había poco margen para hacer políticas anticíclicas. A eso creo que contribuyeron dos factores, la miopía de los mercados con este comportamiento procíclico, y los organismos internacionales. Yo lo he discutido mucho con los amigos del Fondo, pues las presiones de ajuste por parte de los organismos internacionales también acentúan la prociclicidad en las recesiones.

Es cierto que el Fondo reaccionaba a la presión de los mercados, pues cuando uno entra en recesión aumenta el déficit fiscal, y los mercados decían, en esta situación no estoy dispuesto a



prestar. El Fondo entonces reaccionaba pidiendo ajustes en las cuentas públicas, dada la escasez de financiamiento. Aquí hay un tema de causalidad, parece que se potenciaba entre los mercados la visión del Fondo, pero insisto que los períodos de crecimiento no fueron aprovechados para ahorrar, y este es uno de los problemas centrales de la expansión de los noventa. No hubo políticas contracíclicas en períodos de auge, y entonces es difícil tener políticas contracíclicas en los períodos de recesión.

La otra característica de ese período es el aumento del gasto social, un aumento de tres puntos del producto entre 1990 y 2005, un aumento per cápita del orden del 50%. El gasto social por habitante más que recuperó lo que había perdido en los ochenta. Aquí hay una discusión de cómo medir el gasto público, cuando uno hace las comparaciones internacionales en términos de valor. La verdad es que hay ciertos componentes, como el gasto de salud, que tienen mayores componentes comercializables respecto a educación por ejemplo, y por lo tanto hay una discusión acerca de cómo comparar algunos componentes del gasto público entre países.

Las otras características de los noventa son las reformas de los sistemas de pensiones, que produjo una reducción de ingresos fiscales y redujo la solidaridad que caracterizaba el sistema anterior, las privatizaciones, con ingresos fiscales transitorios que hicieron aumentar el gasto y con una inadecuada regulación, aunque no siempre, y un fuerte impulso a la descentralización, con escasa capacitación y una inadecuada institucionalidad, con esta idea de que descentralicemos que todo va a mejorar.

Esta idea yo la escuchaba alguna vez en Argentina, confundiendo las provincias o las regiones o los Estados en América Latina con los cantones suizos. No lo digo como chiste, hay estudios que enfatizan la idea que si descentralizamos van a aparecer los cantones suizos automáticamente. Es un error garrafal de la idea de descentralización, porque descentralizamos sin institucionalidad, descentralizamos sin capacitación. Esto generó algunos problemas serios en estos procesos.

Además, aumentó la deuda pública, sobre todo en moneda extranjera, y en infraestructura hubo un reemplazo parcial de la inversión pública por la inversión privada, cuya consecuencia final es que tenemos mucho menos inversión en infraestructura que la que teníamos antes, y este es un problema para la competitividad de la región.

En este nuevo siglo, uno tiene la idea que hay un quiebre con el pasado, en la bonanza actual el comportamiento fiscal ha sido ejemplar, aunque la palabra es un poco exagerada, pero en términos de lo que ha sido la historia, y si comparamos el ciclo del 94 al 98 con el ciclo 2002-2007, observamos que, como porcentaje del PIB, los ingresos han aumentado fuertemente, los gastos se han mantenido prácticamente constantes y por ello el superávit primario ha sido significativo. Como consecuencia de eso hay una disminución fuerte de la deuda. Entonces en la bonanza actual el comportamiento fiscal ha sido ejemplar, con algunas notas de alerta en el período 2006-2007, en que comienza a verse un aumento del gasto público, que no parece muy significativo, excepto en algunos países, y esto último introduce una señal de alerta, que es lo que Adrienne mencionaba.

Para concluir esta parte macro, yo diría que el panorama ha ido mejorando a través del tiempo, hay un proceso de aprendizaje en la región, pero hay un aumento del gasto público demasiado grande en los últimos años, sobre todo el año pasado, que introduce cierta preocupación, todavía claramente corregible.

El segundo aspecto es el tema de la equidad, en una economía, en una sociedad en que la concentración de la distribución del ingreso no ha cambiado en los últimos años. Ha habido pequeñas mejoras en Brasil, ciertas mejoras en Chile, en Perú, pero son marginales a la luz de una sociedad que sigue mostrando una distribución de ingresos muy inequitativa.

Entonces la pregunta es, ¿qué ha hecho la política fiscal? En América latina, como lo constata un trabajo de Gómez Sabaini, en todos los países, con la excepción de Brasil, la estructura tributaria empeora la distribución de ingresos, pues tiende a aumentar el Gini en todos los países de la región. Este ha sido el comportamiento del sector público en la región, también en los gastos, en parte como decía Mario Marcel, tenemos una sociedad tan desigual y creamos instituciones que hacen perpetua la desigualdad. El sistema tributario es parte de ese proceso.

La diferencia en la recaudación de impuestos entre la OCDE y América Latina es significativa, y yo quiero enfatizar un punto, que es esta alergia al impuesto a la renta en América Latina. En América Latina lo que se recauda a personas físicas es 1.8 puntos del PIB, y 2.8 por impuesto a las sociedades. En la OCDE es al revés (este 1.8 se convierte en 9 puntos del PIB). La diferencia no es tanto en sociedades donde la competencia es mayor en este contexto global, sino en las personas. La recaudación por impuesto a la renta es muy bajo en la región, con la excepción de Brasil.

La evasión sigue siendo alta, aunque decreciente en el IVA, el gasto tributario es elevado, con efectos poco claros sobre la inversión. La efectividad del IVA es de alrededor de 43% en la región, y sobre 60% en el mundo desarrollado. Por cierto, los gastos tributarios en impuestos a las ganancias y en el IVA disminuyen fuertemente la equidad. La administración tributaria sigue siendo una restricción al diseño de las políticas tributarias.

Por el lado del gasto, un trabajo que hicimos con el BID muestra que el gasto público social no es progresivo, básicamente debido a la seguridad social, porque educación y salud muestran una cierta progresividad. Aunque la pregunta es si la educación y la salud tienen que ser muy progresivas: si yo tengo una educación primaria y secundaria donde todos los chicos van a colegios públicos, me va a mostrar una línea igual a 45, lo cual me parece perfecto. La universitaria es otra cuestión, debería ser más focalizada.

Mucho más se necesita trabajar en este aspecto para medir el verdadero impacto del gasto social, cuando hay varios gobiernos en la región que se dedican a subsidiar el consumo en forma permanente, el consumo de combustible, de electricidad, gas, etc., incluyendo a los sectores de las clases medias y altas. En general hay mucho que mejorar en el gasto público para mejorar los niveles de las clases de menores ingresos en la región.

En cuanto a los desafíos del pacto fiscal, éstos no han variado desde su publicación, hace diez años, aunque sí el contexto externo. El primer desafío pasa por la estabilidad macroeconómica y la solvencia fiscal. Ser contracíclico es básicamente pensar en un déficit fiscal estructural. Se pone muchas veces énfasis en el gasto público, si es contracíclico o no, yo diría que el déficit fiscal estructural es lo relevante. Lo que hay que medir es el déficit y no el gasto. Si los ingresos vienen de recursos externos asociados a windfall gains, entonces tenemos un problema desde el punto de vista de absorción, y debemos en ese caso mirar también el gasto para ver si la política es o no pro-cíclica.

Yo creo que a la región le ha ido razonablemente bien en estos últimos años, pero si algo no hemos hecho es generar una institucionalidad fiscal contracíclica que ayude al control fiscal, y aumente la transparencia. Salvo el caso de Chile, todos los otros intentos no han andado bien. Hemos sido responsables, al menos comparado con el pasado, pero no aprovechamos esta coyuntura para crear una estructura fiscal claramente contracíclica.

En cuanto a la calidad del gasto público y de mejorar la equidad, la CEPAL ha sacado dos documentos diciendo que hay que avanzar en la protección social bajo un lado más universal, enfatizando la necesidad de ser un poco más solidarios en las contribuciones. Si uno tiene un sistema de salud donde todas las contribuciones van al seguro privado, y después uno tiene que prestar salud a los sectores donde ese seguro privado no le sirve para una atención mínima, ello exige un esfuerzo fiscal mayor. Creo que debe haber un componente de solidaridad en las

contribuciones a la salud. Nosotros proponemos que haya un seguro universal de salud, más parecido al estilo europeo. Cómo se hace, cuáles son las dificultades para eso, podemos discutirlo.

Y por último el tema de las instituciones, yo quiero cerrar diciendo que esta idea de que es necesario un sector público más activo en algunos ámbitos, requiere al mismo tiempo mejorar la institucionalidad del sector público, porque todos sabemos los peligros de captura por los grandes grupos, por las corporaciones, y por los mismos políticos. Un aumento del gasto público sin mayor institucionalidad, incluyendo transparencia, evaluación y mayor participación de la sociedad civil, puede llevar simplemente a que aparezcan rentas y por lo tanto hay sectores que tienden a apropiarse de esto.

La solución no pasa porque no hagamos cosas porque tenemos estos peligros, sino que tenemos que preguntarnos cómo tenemos que hacer esas cosas para que sean eficientes, desde el punto de vista de la asignación de recursos y al mismo tiempo den la necesaria legitimidad social para construir un pacto fiscal.

La única manera de ir mostrando que mayores ingresos por impuestos generan una política fiscal que mejora la equidad, que llega a los sectores más necesitados, es siendo transparentes y creando una institucionalidad que nos permita evaluar los programas, una cosa alimenta a la otra, y se puede generar un nuevo círculo virtuoso. En España, en la época de Felipe González, los ingresos públicos aumentaron 14 puntos del producto, 1 punto por año en sus 14 años de gobierno. Al mismo tiempo construían una institucionalidad fiscal para mostrar a la gente qué hacía el Estado con esos recursos, cómo se universalizaba la educación y la salud por ejemplo, y se fue mostrando lo bueno que era esto desde el punto de vista de la cohesión social, y como era positivo para la integración con el resto de Europa.

Se fue creando legitimidad a medida que iba aumentando la presión tributaria y creo que esto es lo que los países de América Latina tienen que hacer, sin desconocer que la propia desigualdad en la redistribución del ingreso genera grupos de presión y grupos de interés que están siempre dispuestos a decir ¿para qué más gasto público si los Estados son corruptos, si los políticos son unos corruptos, si el sector público gasta mal? Estos son los poderes que existen de hecho, pero al mismo tiempo tenemos que ir sacándole argumentos a esos sectores y yo creo que con una mayor transparencia, una mayor evaluación, una mayor participación de la sociedad civil en el gasto público, vamos a ser capaces de crear un círculo virtuoso con la política fiscal. Gracias.



## **IV. América Latina: Panorama global de su sistema tributario y principales temas de política<sup>68</sup>**

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***Juan Carlos Gómez Sabaini***  
***Ricardo Martner***

### **1. Las características regionales y el nivel de la tributación**

Cuando se analizan los países de América Latina, surge con fuerza la diversidad de los indicadores económicos y sociales de la región, situación que es determinante para evaluar la situación tributaria de la misma. Con una población total cercana a los 540 millones de habitantes para el año 2005, concurren 19 países<sup>69</sup> en total, que van desde Brasil con más de 187 millones y México con 106 millones, hasta Panamá y Uruguay con algo más de 3 millones de habitantes cada uno. Igualmente disímil resulta ser el grado de desarrollo de la región, para la que se ha estimado un Ingreso Nacional Bruto (INB) para ese mismo año 2005 del orden de los 3.570

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<sup>68</sup> Los autores agradecen las valiosas contribuciones efectuadas por Alberto Barreix (BID) así como la colaboración brindada por los Lic. Maximiliano Geffner y María Victoria Espada en la preparación de este documento.

<sup>69</sup> En todo este análisis no se incluye a Cuba, por no disponerse de la información tributaria del país, ni tampoco a los países de habla inglesa, ya que los mismos tienen sistemas tributarios sustancialmente distintos de los del resto de los países de AL lo que tornaría inocuo un análisis comparativo.

dólares en promedio. Observando los casos extremos encontramos a países como México con un nivel de 6.800 dólares per cápita, y Chile (5.200 dólares) mientras que en el extremo opuesto están Bolivia (960 dólares), Nicaragua (830 dólares) y Haití (400 dólares).

La metodología seguida por el Banco Mundial para estratificar a los países según su nivel de ingreso per cápita, conocida como método Atlas, divide a los países en cuatro niveles de acuerdo con el INB per cápita que para el año 2005 indica que aquellos con menos de 875 dólares anuales son considerados como de nivel de ingreso bajo; hasta 3.465 dólares de ingreso medio bajo; hasta 10.725 dólares de ingreso medio alto; y con más de 10.726 dólares, de alto nivel de ingreso.

Esta clasificación aplicada a la situación de América Latina indica que tres países son considerados de ingreso per cápita bajo (Bolivia, Haití y Nicaragua); diez países de ingreso medio bajo (Brasil, Colombia, República Dominicana, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Paraguay, y Perú), y los siete restantes (Argentina, Chile, Costa Rica, México, Panamá, Uruguay y Venezuela) de ingreso medio alto.

Por otra parte no puede dejar de mencionarse el sustancial peso relativo que tienen los tres países de mayor dimensión y el escaso aporte de los tres más pequeños en la generación del ingreso nacional bruto de la región. Argentina, Brasil y México contribuyen con más del 70% del total, y en el extremo opuesto Bolivia, Haití y Nicaragua aportan conjuntamente menos del 1% del total. América Latina cubre un territorio de más de 20 millones de km<sup>2</sup>, de los cuales sólo Brasil ocupa el 42% del total, Argentina el 14% y México el 9%, mientras que en el otro extremo, El Salvador o Haití ocupan sólo el 0,1%.

Cabe recordar que América Latina está conformada por distintas realidades subregionales. Los países han desarrollado sus propios marcos de integración. Los países que integran el MERCOSUR son Argentina, Brasil, Paraguay y Uruguay. Venezuela se ha incorporado recientemente como socio pleno y Bolivia y Chile son miembros asociados. Por otra parte la Comunidad Andina (CAN) esta integrada por Bolivia, Colombia, Ecuador y Perú. A su vez el Mercado Común Centroamericano (MCCA) esta constituido por Costa Rica, Guatemala, Honduras, El Salvador y Nicaragua e incorpora a la República Dominicana en determinadas áreas.

Como se ha señalado, las disimilitudes son enormes. Frente a tan diferentes situaciones pretender abordar de manera global un análisis que incluya las distintas circunstancias tributarias por las que pasan los países de la región resulta ser una tarea no exenta de grandes dificultades y de un alto nivel de conflictos en cuanto a sus conclusiones.

Un análisis sobre la situación tributaria durante las últimas décadas puede llevarse a cabo siguiendo dos caminos: el primero de ellos consistiría en efectuar una tarea de recopilación de información estadística y legislativa de cada uno de los países de la región a fin de analizar la evolución y resultados de los cambios ocurridos en cada circunstancia. La segunda ruta, y que es la seguida en este documento, se orienta más a brindar una visión estilizada de los hechos, a sabiendas de que se pueden estar cometiendo errores interpretativos o generalizándose las conclusiones mas allá de lo conveniente.

La construcción de series comparables en el tiempo y entre países es una tarea difícil y que suele conducir a errores, y en el caso de un concepto tan comúnmente utilizado entre los economistas como es la “presión tributaria”, llama la atención el cuidado que hay que tener al sentenciar algún número. En primer lugar está el tema de los niveles de gobierno a considerar. La mayoría de los países de la región son países unitarios y el gobierno central recauda la mayor parte de los recursos, con sus municipios aportando menos del 10% de los mismos. Pero en otros casos existen gobiernos federales, como Argentina, Brasil, México y Venezuela, donde existen gobiernos intermedios (Estados, Provincias) que en algunos casos tienen potestades tributarias propias, que

aportan, como en el caso de Brasil, significativos ingresos. Al respecto vale mencionar que la composición de la presión tributaria de Argentina para el año 2005 se distribuyó en el 81% para el gobierno nacional, 14% para los gobiernos provinciales, y 5% para los municipios (datos estimados). En el caso de Brasil la importancia de los gobiernos estatales y municipales es sustancialmente mayor ya que en el año 2005 los mismos han participado con el 30% del total de la carga tributaria. A su vez, parte de la recaudación se origina en niveles u organismos que después tienen la obligación de transferir parte o el total de la misma hacia otros niveles u organismos con lo cual no disponen del total recaudado. Esto es lo que pasa con la coparticipación de impuestos, o con los fondos sociales, por ejemplo.

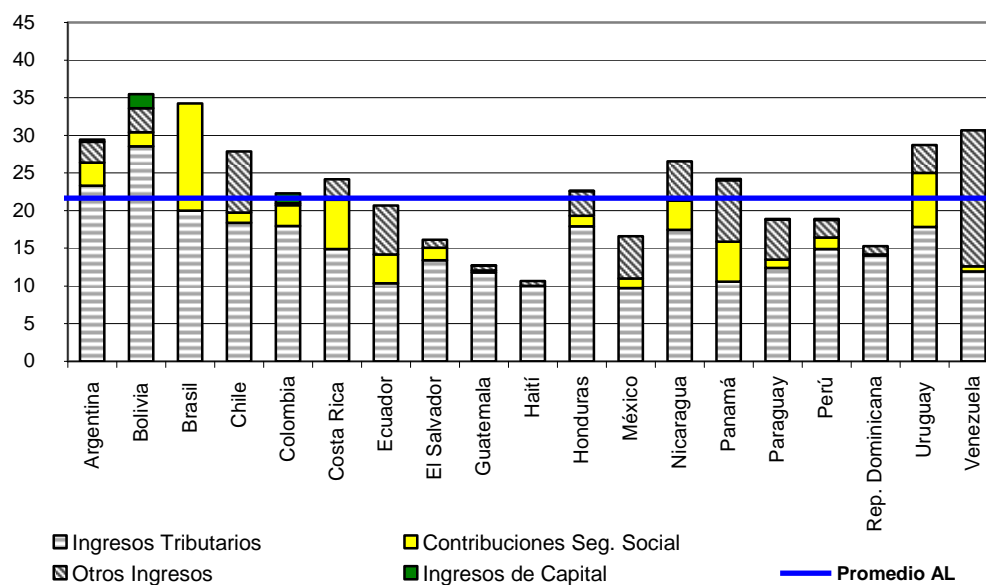
Por otro lado, si bien gran parte de los países han privatizado sus empresas productoras de bienes y servicios en las últimas décadas, las empresas públicas son muy importantes en el caso de los países exportadores de recursos naturales (Chile con el cobre, México, Venezuela y Ecuador con el petróleo, Bolivia con el gas) o cuando tienen un beneficio especial por su posición geográfica (Panamá con sus ingresos por peaje del Canal). En estos casos los ingresos por esos conceptos se contabilizan como no tributarios, pero su monto llega a ser muy significativo.

Además, siendo parte de las funciones del Estado brindar una cobertura social a través de diversos organismos, la recaudación destinada al sistema de seguridad social tampoco debería descuidarse. Pero la privatización total o parcial de los mismos en algunos países en las últimas décadas plantea serias dudas sobre la comparación en los niveles de recaudación de estos países. Algunos, como Chile, poseen un sistema privado y no presentan recaudación por este concepto. Otros como Argentina y Uruguay, tienen sistemas mixtos, por lo cual el Estado percibe ingresos. En estos casos, se mantendrán cuantiosas prestaciones durante la fase de transición, para cubrir las pasividades ya existentes. Por otro lado, existen países que siguen teniendo un sistema netamente público como Brasil, Costa Rica, o Panamá, con lo cual la importancia de la recaudación de este sistema puede llegar a representar una porción importante de la recaudación tributaria. Una vez más resalta el caso de Brasil ya que el conjunto de tributos y contribuciones que son asignados al financiamiento del presupuesto de seguridad social ha sido en el año 2005 igual al 15,4% del PIB, es decir que casi el 41% del total de los ingresos tributarios han sido asignados al financiamiento de esas erogaciones.

Finalmente, quedan los casos de ingresos cuasi-tributarios, entre los cuales debemos mencionar el más utilizado durante los años ochenta como mecanismo complementario de financiamiento, el impuesto inflación. La desaceleración en el crecimiento del nivel de precios lo ha dejado de lado pero no debe olvidarse que en muchos países es necesario considerarlo al comparar la evolución de los niveles de recaudación entre décadas y además porque existen países en la región que han tenido importantes procesos inflacionarios en los últimos años, como Argentina, Brasil, Uruguay, o República Dominicana. Complementariamente, los ingresos por aplicación de tipos de cambio diferenciales fueron y son otra fuente de recursos que complica la comparación entre países y en el tiempo.

En el Gráfico IV.1 se presenta el nivel (como porcentaje de PIB) y la composición de los ingresos fiscales del gobierno (central o general, según los casos) al año 2006. Cabe señalar que en varios países (Argentina, Brasil, Colombia, Costa Rica, Guatemala, Haití, Honduras y Uruguay) los ingresos tributarios constituyen prácticamente la única fuente de ingresos corrientes de los gobiernos. En otros (Bolivia, Chile, Ecuador, México, Perú y Venezuela), los ingresos tributarios son complementados por otros ingresos corrientes originados en las rentas de recursos naturales (hidrocarburos y minería). En Nicaragua y, en mucha menor medida en El Salvador y República Dominicana, las donaciones bilaterales y multilaterales contribuyen a elevar los ingresos corrientes respecto de los ingresos tributarios. Por otra parte en Panamá los ingresos corrientes derivados de actividades de servicios también complementan los ingresos tributarios del gobierno central.

**GRÁFICO IV.1**  
**LA CARGA FISCAL EN AMÉRICA LATINA Y EL CARIBE**  
 (En porcentaje de PIB, 2006)



Fuente: ILPES, CEPAL, sobre la base de cifras oficiales.

La evolución de la carga tributaria (incluyendo seguridad social) entre 1990 y el 2006 (ver Cuadro IV.1) muestra que la presión promedio para la región creció fuertemente, del 12,8% en 1990 al 18,4% en 2006. Tomando el promedio durante este período como un criterio ordenador, podemos clasificar a los países en tres grupos, según si superan por dos puntos o más el promedio regional. Así, Argentina, Brasil, Chile, Costa Rica y Uruguay muestran tasas superiores a la media. A la inversa, El Salvador, México, República Dominicana, Paraguay, Ecuador, Venezuela, Guatemala y Haití son los países con menor tasa tributaria.

Argentina, Brasil y Uruguay elevaron mucho su carga tributaria, partiendo ya de tasas relativamente altas respecto del promedio regional. Con una presión tributaria inicial muy pequeña, destacan los significativos aumentos en Bolivia, Costa Rica, Colombia, República Dominicana y Venezuela. La recaudación tributaria ha tenido sustanciales aumentos a partir del 2004 en los países citados y en Chile, lo que refleja a la vez mejoras administrativas importantes y el pleno rendimiento de nuevos tributos. México es el único país en que la tasa tributaria se ha mantenido en niveles muy bajos, cercanos al 12% del PIB.

En los años recientes, las mayores tasas de crecimiento económico y la mejora de los términos de intercambio impulsaron una recuperación de la carga tributaria. En general, la elasticidad de la recaudación tributaria es superior a la unidad (véase Martner, Tromben, 2004). En las fases expansivas del ciclo, ello ocurre debido a que el crecimiento produce un aumento de la economía formal y genera un incremento más que proporcional de las importaciones y de los impuestos asociados. Por el contrario, en las fases recesivas la recaudación cae más que proporcionalmente debido a la inversión de los mecanismos anteriores y también por el significativo aumento de la evasión. La relación entre inflación y recaudación tributaria también es contundente. La inflación disminuye el valor real de la recaudación fiscal al existir rezagos



entre la generación del impuesto y su recolección, y además reduce los ingresos reales, por lo que las familias y las empresas intentarán mantenerlos a través de un menor pago de impuestos. Así, la estabilidad macroeconómica, entendida como la combinación de alto crecimiento y baja inflación, es la principal condición para una mayor recaudación tributaria. Cuando el entorno es recesivo y la inflación ascendente, cualquier sistema tributario enfrenta dificultades para evitar la merma de los ingresos.

**CUADRO IV.1**  
**GOBIERNO CENTRAL: INGRESOS TRIBUTARIOS**  
**(CON CONTRIBUCIONES A LA SEGURIDAD SOCIAL) <sup>a</sup>**  
*(En porcentajes de PIB, 1990-2006)*

	1990	2000	2006p	Promedio 90-06
GRUPO 1	19,7	22,7	25,7	22,3
Brasil <sup>a</sup>	26,4	30,4	34,2	28,5
Uruguay	22,4	23,6	25,6	23,8
Argentina <sup>a</sup>	16,1	21,5	27,4	21,7
Chile <sup>a</sup>	16,5	19,2	19,7	18,9
Costa Rica <sup>a</sup>	16,9	18,9	21,4	18,9
GRUPO 2	11,6	15,9	19,9	15,6
Honduras	15,3	17,0	19,3	16,8
Colombia <sup>a b</sup>	10,9	16,8	20,7	16,6
Nicaragua	9,0	17,5	21,3	15,9
Panamá	14,7	16,0	15,9	15,7
Perú	11,6	13,9	16,4	14,6
Bolivia	8,2	14,0	25,7	14,0
GRUPO 3	7,9	10,4	12,5	10,0
El Salvador	8,9	13,0	15,0	12,6
México	12,6	12,1	11,0	12,3
Rep. Dominicana	8,2	12,7	14,1	11,9
Paraguay	9,9	12,0	13,5	11,8
Ecuador	10,1	11,6	14,2	11,2
Guatemala	7,6	10,9	12,1	10,3
Venezuela	4,4	9,4	12,6	9,3
Haití	7,3	7,9	10,0	7,4
Promedio simple AL	12,5	15,7	18,4	15,4

Fuente: Elaboración propia.

<sup>a</sup> Corresponde a Gobierno General. En otros países la información puede diferir de la proporcionada por otras fuentes de acuerdo a la cobertura de las contribuciones de la Seguridad Social, como en el caso de Uruguay.

<sup>b</sup> Los datos corresponden a 2005.

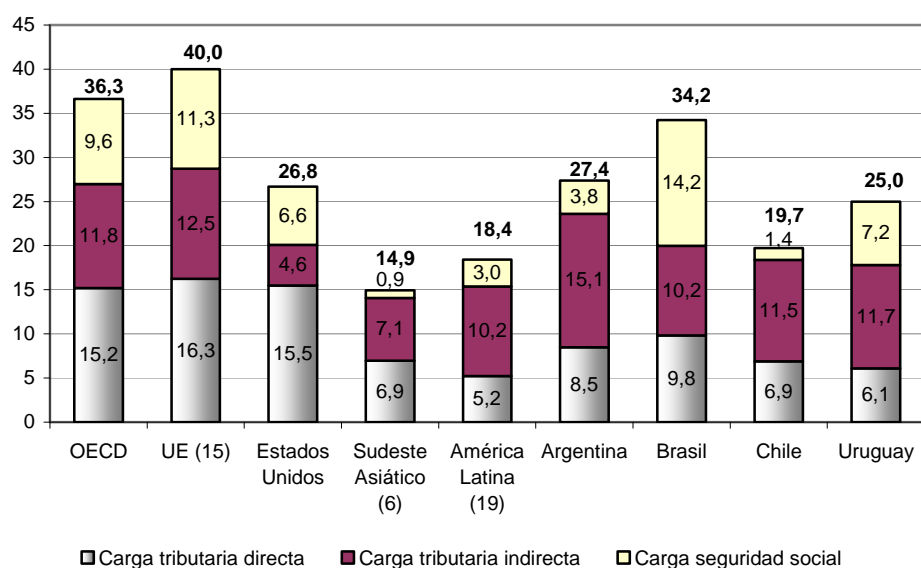
Una de las funciones principales de los impuestos es financiar el gasto de bienes y servicios del gobierno, de modo que la elección del nivel de ingresos implica, en el mediano plazo, delimitar el nivel de gasto del sector público. Más allá de las recomendaciones tradicionales de evitar impuestos que distorsionen la asignación de recursos, la teoría económica ofrece una guía muy limitada en cuanto a la decisión del nivel de la carga tributaria y de la estructura impositiva.

Algunos estudios relacionan negativamente la presión tributaria, o el gasto público, con el desempeño económico. Pero no es posible avanzar conclusiones sólidas al respecto: hay países que han crecido satisfactoriamente con un nivel alto de impuestos, y muchos otros tienen un mediocre desempeño macroeconómico y una presión tributaria reducida. Antes bien, la causalidad parece ser inversa: a medida que los países crecen, la base tributaria se amplía y el sistema puede volverse

más progresivo, todo lo cual redunda en un círculo virtuoso entre crecimiento, gasto público, nivel de impuestos y progresividad del sistema.

Una forma de evaluar si los niveles y estructuras impositivas son “adecuados” es comparando la relación entre impuestos y PIB para un número amplio de países. La simple comparación de la situación de América Latina y el Caribe con otras regiones del mundo es muy reveladora (Gráfico IV.2). En 2006 la carga tributaria en la OCDE representó dos veces la presión tributaria de América Latina y el Caribe. En cuanto a la composición, resalta la mayor importancia relativa de los tributos directos en los países de la OCDE, así como también la relevancia de las contribuciones de la seguridad social. En América Latina y el Caribe, los sistemas tributarios están vertebrados sobre la imposición indirecta y, en este sentido, se ha argumentado que, sistemáticamente, la recaudación directa es más baja que en otras regiones con tasas similares. Los niveles de presión tributaria de América Latina y el Caribe y de Asia del Este son parecidos, aunque la composición es muy diferente. Los países asiáticos muestran una carga mayor por impuestos directos (especialmente a las empresas), y contribuciones a la seguridad social de un monto poco significativo.

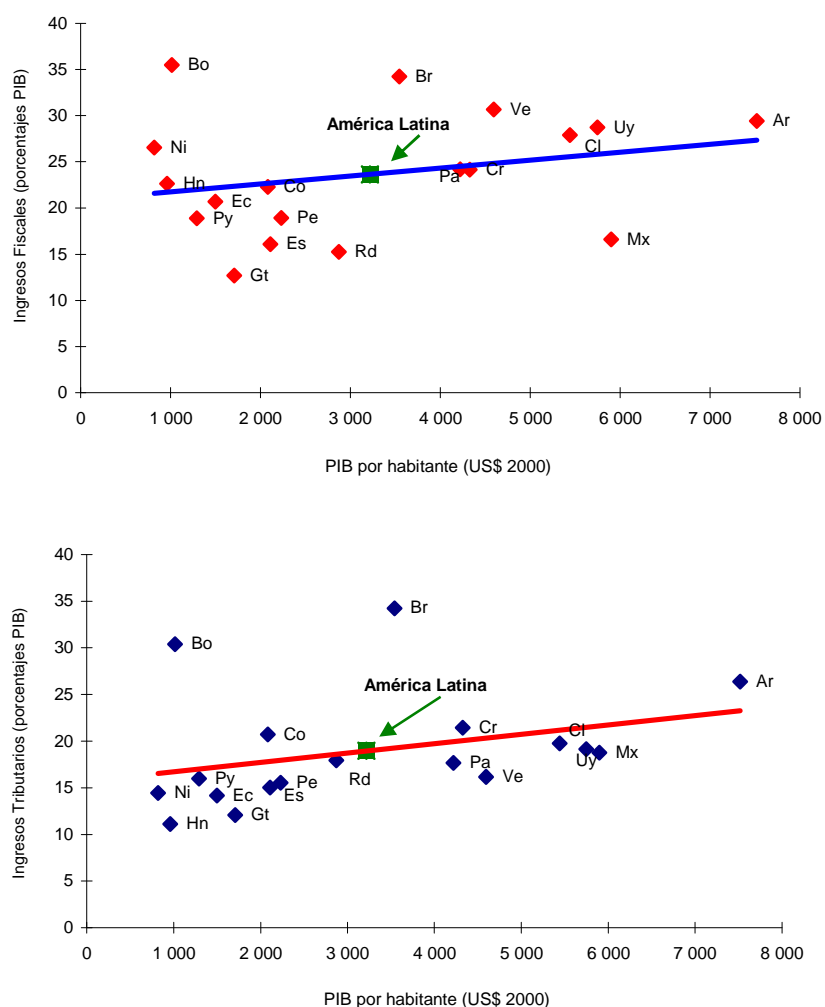
**GRÁFICO IV.2**  
**COMPARACIONES INTERNACIONALES DE LA CARGA TRIBUTARIA**  
**AÑO 2006**



Fuente: elaboración propia sobre la base de cifras oficiales de cada país.

Algunos autores estiman, mediante regresiones de panel, la “capacidad tributaria” de cada país (véase por ejemplo Agosin et al., 2005 para los países de Centroamérica), la que se compara a la tasa efectiva. Aunque estimarla no es el objetivo de este documento, para fines ilustrativos se muestra la relación entre las recaudaciones fiscal y tributaria en América Latina y el Caribe y su nivel de ingreso per cápita en el Gráfico IV.3.

**GRÁFICO IV.3**  
**INGRESOS FISCALES Y TRIBUTARIOS Y PIB POR HABITANTE, 2006**



Fuente: CEPAL para cifras de PIB y elaboración propia sobre la base de cifras oficiales de cada país para ingresos tributarios.

Notas:

<sup>a</sup> El PIB se expresa a precios constantes de 2000.

<sup>b</sup> Los datos de ingresos tributarios incluyen contribuciones a la seguridad social y tienen cobertura de Gobierno General en Argentina, Bolivia, Brasil, Chile, Costa Rica y Uruguay.

<sup>c</sup> Los datos de Uruguay corresponden al 2002.

Para concluir, se observa que si bien ha habido un crecimiento generalizado de la presión tributaria promedio en la última década en todos los países (México es la gran excepción), la actual situación muestra que aún existe un potencial importante cuando se compara esta tasa tributaria con los niveles de ingreso de los países (Brasil es la gran excepción). El nivel de la carga tributaria efectiva se encuentra por debajo del nivel esperado (véase Agosin et al., 2004, y Perry et al., 2006). Este faltante de recursos tributarios es de 3 a 4 puntos del PIB, lo que implica que dado el nivel de la carga tributaria observada, existe un faltante de recursos que podría ser estimado entre un 15% a un 25% del nivel actual.

## 2. Principales rasgos de la evolución de las estructuras tributarias en América Latina

La composición de las estructuras tributarias presenta variaciones significativas a lo largo del período 1990-2006 respondiendo a una serie de hechos estilizados que se analizan seguidamente.

a) En primer lugar, se observa una menor participación de los ingresos al comercio exterior en el total de ingresos tributarios, en parte como consecuencia de la desaparición de los impuestos a las exportaciones en toda la región<sup>70</sup> y especialmente por la sustancial reducción de los aranceles nominales y efectivos a las importaciones. Esta tendencia se manifiesta desde la década de los ochenta y se complementa con el proceso de generalización y fortalecimiento del IVA en toda la región, el que se convirtió así en la principal fuente sustitutiva de recursos, duplicando su participación respecto al PIB a lo largo del período 1990-2006, tal como indica el Cuadro IV.2.

**CUADRO IV.2**  
**ESTRUCTURA DE LOS INGRESOS TRIBUTARIOS EN LATINOAMÉRICA**  
(En porcentajes de PIB)

Concepto	1990	1995	2000	2006 (p)
Total ingresos tributarios	10,2	12,0	12,8	15,4
Ingresos tributarios directos	2,8	3,4	3,9	5,1
Renta y ganancia de capital	2,1	2,8	3,1	4,2
Propiedad	0,6	0,5	0,7	0,8
Otros directos	0,3	0,3	0,4	0,4
Ingresos tributarios indirectos	7,4	8,5	9,0	10,2
Generales sobre bienes y servicios	2,8	4,4	5,0	6,2
Específicos sobre bienes y servicios	1,9	1,8	2,0	2,2
Comercio y transacciones internacionales	2,0	1,9	1,6	1,3
Otros indirectos	0,8	0,4	0,4	0,6
Seguridad Social	2,6	3,0	3,0	3,2
Total ingresos tributarios (incl. seg. social)	12,5	14,8	15,7	18,4

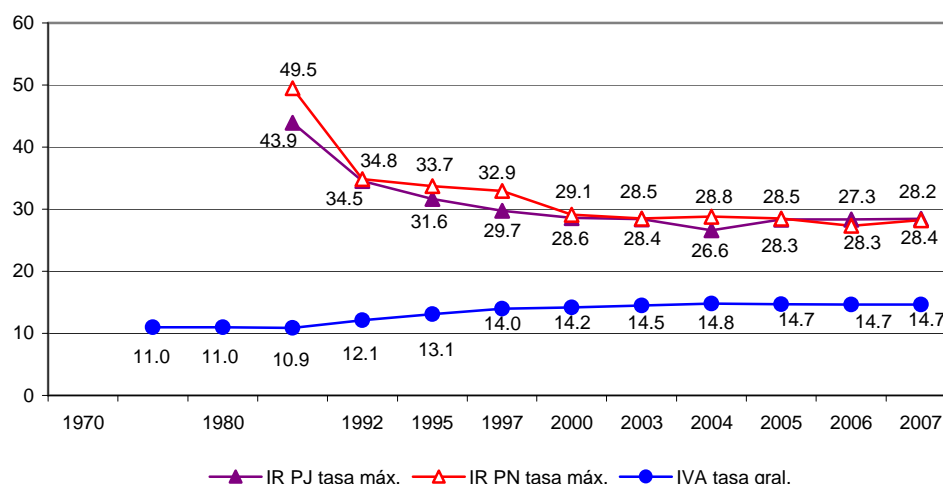
Fuente: CEPAL, Naciones Unidas.

b) En segundo lugar, la participación de los impuestos a la renta, si bien se ha incrementado también en ese mismo período, lo ha hecho a una menor tasa, aunque esta afirmación debiera ser reconsiderada dado que en los últimos años pareciera existir un mayor peso de los impuestos societarios. Al respecto cabe mencionar que la información referida al impuesto que recae sobre las sociedades y sobre medida en las personas naturales o físicas, es deficiente en la mayor parte de los países.

Se observa asimismo en el Gráfico IV.4 una tendencia a la disminución de las tasas máximas de renta, tanto para las personas físicas (del 50% a mediados de la década de 1980 a un entorno del 28% para el momento actual) como para las personas jurídicas (del 44% promedio para 1986 al 26% para el 2004).

<sup>70</sup> El caso reciente de Argentina respecto de las retenciones a la exportación a partir del año 2002, constituye una excepción a la regla general.

**GRÁFICO IV.4**  
**EVOLUCIÓN DE LAS TASAS PROMEDIO DE IVA, IRPJ Y IRPN PARA AMÉRICA LATINA**



Fuente: Elaboración propia.

c) En tercer lugar, en lo que respecta al IVA su base imponible se ha ido ampliando progresivamente, especialmente a través de la incorporación de los servicios dentro de la misma. Correlativamente, ha ido aumentando el nivel promedio de su tasa, que pasó de 11% a 15%, con un nivel máximo del 23% (Uruguay).

Aunque su adopción ha sido generalizada, el IVA presenta importantes diferencias de un país a otro, tanto en lo que se refiere a la amplitud de la base gravada como a las alícuotas (variedad y tasas) que en cada caso se aplican. En algunos países se gravan tanto bienes como servicios de manera general, mientras que en otros se toma como base los bienes y sólo algunos servicios y, en unos pocos, el impuesto se aplica exclusivamente a los bienes.

En cuanto a las alícuotas, una primera diferenciación se puede establecer entre aquellos países que han instrumentado tasas múltiples (para distinguir entre diferentes tipos de consumo) y los que han adoptado una tasa única de aplicación general. Así, por ejemplo, Argentina, Colombia, Costa Rica, Honduras, México, Nicaragua y Panamá utilizan un sistema de tasas múltiples, mientras que el resto impone tasas únicas y uniformes.

A su vez, las alícuotas vigentes en los países de la región presentan dos características básicas (Gráfico IV.4). Tal como se ha señalado se observa, por un lado, una tendencia generalizada al aumento, ya que entre 1994 y 2007 el promedio regional de la recaudación por concepto de IVA se incrementó en tres puntos porcentuales del PIB. Por otro lado, se aprecian marcadas diferencias entre los países en cuanto a la magnitud de la alícuota aplicada (ver Cuadro IV.3). En efecto Argentina, Brasil, Chile, Perú y Uruguay aplican tasas superiores o cercanas al 20%, mientras que Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Haití, Honduras, Panamá y Paraguay han adoptado tasas que no superan el 13%, situándose así por debajo del promedio de 14,7%.

**CUADRO IV.3**  
**AMÉRICA LATINA Y EL CARIBE: ALÍCUOTAS DEL IMPUESTO**  
**AL VALOR AGREGADO**

	1994	2000	2006	2007
Argentina	18	21	21	21
Bolivia	14,92	14,92	13	13
Brasil	20,48	20,48	20,48	20,48
Chile	18	18	19	19
Colombia	14	15	16	16
Costa Rica	8	13	13	13
Ecuador	10	12	12	12
El Salvador	10	13	13	13
Guatemala	7	10	12	12
Haití	10	10	10	10
Honduras	7	12	12	12
México	10	15	15	15
Nicaragua	10	15	15	15
Panamá	5	5	5	5
Paraguay	10	10	10	10
Perú	18	18	19	19
R. Dominicana	6	8	16	16
Uruguay	22	23	23	23
Venezuela	10	15,5	14	14
Promedio AL	11,7	14,2	14,7	14,7
Desviación estándar AL	5,1	4,6	4,4	4,4

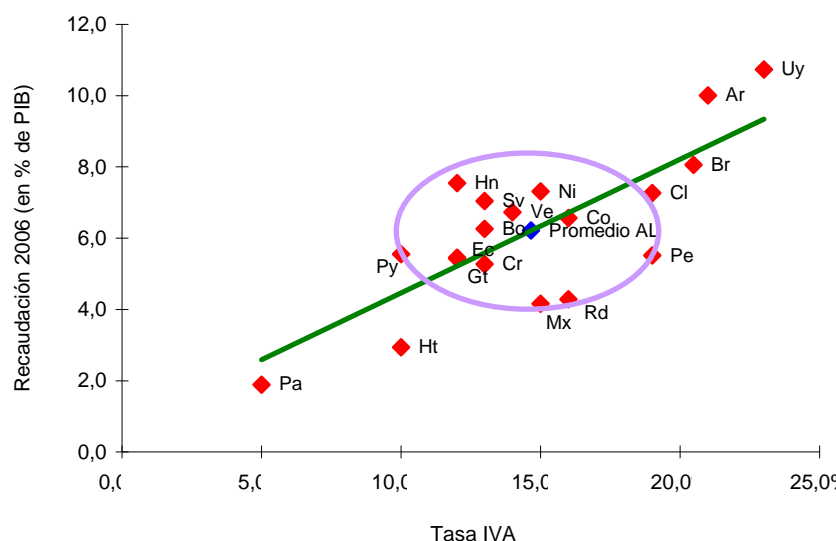
Fuente: CEPAL, sobre la base de información oficial de cada país.

En términos comparativos, vale señalar que en 2004 el promedio simple de las tasas del IVA que se aplicaron en América Latina y el Caribe se ubicó casi cinco puntos porcentuales por debajo del promedio simple de los países de la Unión Europea (14,6% y 19,6% respectivamente). Asimismo, vale destacar que en el caso de la Unión Europea la dispersión de tasas entre países fue menor que en América Latina y el Caribe (con una desviación estándar de 3,0 en el primer caso y 4,4 en el segundo).

Además, la productividad del IVA (definida como la recaudación como porcentaje del PIB dividido por la tasa general) es comparativamente baja en la región ya que alcanzó un 42% en 2006 (a título ilustrativo, el promedio de la productividad en los países desarrollados es mayor a 60%). También en este caso se observan importantes diferencias entre países, según se aprecia en el Gráfico IV.5. Cinco países (Haití, México, Perú, Panamá y República Dominicana) muestran eficacias recaudatorias muy por debajo del promedio regional.

Por cierto que este indicador no refleja necesariamente eficiencia administrativa, sino más bien la dispersión de las alícuotas en torno a la tasa general. Por ejemplo, en México, al existir exenciones para los alimentos, la dispersión es mayor. Por lo tanto, este gráfico ilustra sólo la distancia respecto de un potencial recaudador en caso de que no existieran exenciones. En un contexto caracterizado por crecientes dificultades para instaurar nuevos impuestos o mayores tasas impositivas, la eliminación de exenciones y las limitaciones en las deducciones tributarias emergen como fuentes significativas de recursos fiscales en el futuro.

**GRÁFICO IV.5**  
**PRODUCTIVIDAD DEL IVA (2006)**



Fuente: CEPAL, Naciones Unidas.

e) En cuarto lugar se observa un creciente grado de informalidad de los mercados, especialmente en el campo laboral y en los micro-emprendimientos, que ha llevado a la mayoría de los países de la región a implementar diversas medidas tributarias para adecuarse a esas circunstancias: algunos han optado por sistemas sustitutivos de tratamiento integral de esos grupos de contribuyentes, otros por excluir del ámbito de imposición a los contribuyentes considerados poco rentables por la administración tributaria, y en otros lugares se observa un incumplimiento elevado de las normas, es decir que se optó por convivir con el problema.

De diecisiete países analizados de América Latina, se observa que catorce han implementado un régimen especial de tributación para los pequeños contribuyentes, y tan sólo tres no lo han hecho (El Salvador, Panamá y Venezuela). No obstante estos tres países aplican una exención al Impuesto al Valor Agregado considerando los montos de ventas. De los países que aplican regímenes especiales, en su casi totalidad estos son de carácter voluntario. A su vez, se destaca que siete países aplican más de un régimen, siendo Chile el país que aplica más regímenes por cuanto además de tener cuatro regímenes con carácter general, algunos de ellos a su vez admiten sub-regímenes con características específicas según la actividad económica de los contribuyentes<sup>71</sup>. Por su parte, Argentina aplica un régimen denominado “monotributo impositivo” que constituye un régimen sustitutivo del impuesto a la renta, de las contribuciones previsionales y del impuesto al valor agregado<sup>72</sup>. Brasil por otra parte ha implementado un régimen denominado “simples” y que también constituye una forma de tratar de capturar a la economía informal a través de un sistema simplificado.

f) En quinto lugar, el uso del término “gasto tributario” es ampliamente utilizado para referirse a las exenciones, exoneraciones, créditos, deducciones, aplazamientos y algunas devoluciones de impuestos. En sentido amplio, el gasto tributario puede entenderse como aquella recaudación que se deja de percibir, producto de la aplicación de franquicias o regímenes

<sup>71</sup> González, Darío (2006).

<sup>72</sup> Gómez Sabaini, J. C. y Geffner, M. (2006).

impositivos especiales, y cuya finalidad es favorecer o estimular determinados sectores, actividades, regiones o agentes de la economía.

En América Latina y el Caribe, un cada vez mayor número de países provee información sobre el gasto tributario. Los montos son muy significativos en todos los casos, con un mínimo de 1,4% del PIB para Brasil y un máximo de 7,4% del PIB para Colombia. En relación con los impuestos de origen del gasto tributario, cabe señalar que en Argentina, Ecuador, Perú y Uruguay predominaron incentivos otorgados en relación con los impuestos indirectos, especialmente el IVA, mientras que en Chile los incentivos se concentraron más en el impuesto a la renta. En cuanto a su destino, en el caso de Argentina el 80% del gasto tributario (2,4% del PIB) correspondió a tratamientos establecidos en las leyes de los respectivos impuestos y el resto a beneficios otorgados en los diversos regímenes de promoción económica, regional y sectorial. En el caso de Chile, el gasto tributario (4,2% del PIB) se dirigió principalmente al sector financiero (61,3%), al sector inmobiliario (12,6%) y a la educación (7,4%).

d) Finalmente, resulta conveniente destacar dos hechos adicionales. Por una parte, se ha realizado una significativa depuración del número de impuestos aplicados, especialmente en materia de imposición selectiva, limitándose la misma a gravar actualmente a los bienes y servicios que podríamos denominar inelásticos, como tabacos, bebidas alcohólicas y gasificadas, combustibles y telecomunicaciones, y por otra parte se observa el nacimiento y surgimiento de impuestos aplicados sobre bases extraordinarias o espurias como débitos y créditos bancarios, impuestos a las operaciones financieras, y otros gravámenes “heterodoxos” destinados a establecer un mínimo de participación de la imposición directa.

### **3. Perspectivas referidas a los principales impuestos**

La tendencia en materia de reducción de los impuestos al comercio exterior manifestada en las décadas pasadas no parece que hubiese llegado aún a su punto de culminación, ya que el actual proceso impulsado tanto por la firma de tratados multilaterales de comercio (TLC con EEUU y otros tratados bilaterales de libre comercio), como por los movimientos de las distintas áreas de integración regional tendrán necesariamente su repercusión sobre la recaudación producida por los derechos de importación. Por ejemplo, el acuerdo del DR-CAFTA, que es un convenio regional de los países de Centroamérica, los Estados Unidos y la República Dominicana tiene una pérdida de recaudación por aranceles (véase Barreix et al., 2003, y Agosin et al. 2005).

Esta situación pone de relieve la necesidad de analizar probables vías para la recuperación de los recursos que se perderán a fin de evitar que mientras que por una parte el proceso de apertura no se vea obstaculizado por ello, por la otra los países no experimenten pérdidas fiscales que pueden afectar tanto su nivel de sostenibilidad fiscal y la equidad del sistema tributario como su estructura productiva.

Por ello como señalan Baunsgaard y Keen (2005) “una revisión informal de la información también sugiere que los países que han tenido éxito en recuperar los ingresos perdidos del comercio exterior han logrado ello no sólo con recursos provenientes de impuestos sobre el consumo doméstico –receta usual– sino también fortaleciendo los impuestos a la renta. Ello puede ser, en alguna instancia, debido a que el aumento de la imposición a la renta ayuda a allanar las dificultades de política económica de un mayor peso de la imposición al consumo, los que son percibidos (correctamente o no) como regresivos”.

No obstante lo afirmado precedentemente, la evolución de las estructuras tributarias en AL indica que éstas no parecen haber avanzado en esa dirección sino que más bien han estado concentradas sólo en el crecimiento de la imposición al consumo, y cuando éste se mostró



insuficiente se apeló a recursos heterodoxos o distorsivos para fortalecer la recaudación, lo cual plantea un tema de análisis sobre el futuro de la imposición a la renta.

Asimismo se observa que en materia de imposición a la renta la reducción en los niveles de las tasas marginales de los impuestos personales y societarios ha sido el patrón de comportamiento general de la tendencia internacional en la materia, sin que se hayan adoptado de manera concurrente en la mayoría de los países medianos y pequeños de la región medidas tendientes a “blindar” al gravamen de los efectos de la liberalización comercial y financiera que han aparecido en las últimas dos décadas.

La fuerte participación que tienen las sociedades en el total de la recaudación del tributo y la alta movilidad de las bases imponibles de las mismas frente al proceso de globalización ponen de manifiesto la urgencia en incorporar cambios en este campo a fin de evitar que el retraso en el crecimiento de la recaudación del impuesto a la renta se acreciente en el futuro. En ese respecto son muchos los países que continúan aplicando normas tributarias apropiadas para economías cerradas y de mercados financieros controlados, cuando la realidad indica todo lo contrario.

Al respecto se observa que es aún frecuente el uso del principio de fuente en lugar del criterio de renta mundial, la ausencia de normas para controlar la deducción excesiva de intereses, la falta de normas explícitas para determinar los precios de transferencia entre empresas internacionales, la total desconexión entre las administraciones tributarias en materia de intercambio de información, y muchas otras normas destinadas a ampliar y fortalecer la base potencial del gravamen y a evitar los efectos de una competencia tributaria nociva a través de normas que no sólo son de uso frecuente en los países desarrollados, sino que son recomendadas por la OCDE.

Se observa asimismo los generosos y no siempre efectivos sistemas de promoción y de incentivos otorgados a la inversión, y los tratamientos favorables a las rentas financieras, todo lo cual limita la recaudación del gravamen.

De manera complementaria con la imposición a la renta se observa que la presencia de otros gravámenes progresivos tales como podrían ser los impuestos al patrimonio personal sólo han sido utilizados por pocos países (p.e., Argentina y Uruguay), pero ellos adolecen de serios problemas de administración, y especialmente de control, por lo que no llegan a tener el impacto esperado.

En síntesis, queda pendiente una discusión sobre el papel que le cabe a la imposición a la renta personal en América Latina y en ese sentido nos preguntamos respecto al tratamiento que deben tener los ingresos provenientes de colocaciones financieras de todo tipo, tanto públicas como privadas, el papel que le cabe dar a las ganancias de capital, y cuáles son los mejores medios para controlar efectivamente la aplicación del tributo. Dada la disparidad de objetivos existentes entre la tributación a la renta de las personas naturales, por una parte, y la imposición a las utilidades de las sociedades, por la otra, resulta conveniente efectuar una reflexión sobre las perspectivas de una y otra forma de imposición en sus efectos sobre la equidad y la inversión.

Por otra parte se observa que, tal como se ha señalado, “la difusión del IVA ha sido el acontecimiento tributario de los últimos cincuenta años, ya que de ser un impuesto mayormente desconocido fuera de Francia en la década de los cincuenta pasó a ser adoptado por 136 países, donde normalmente representa una cuarta parte de la recaudación tributaria”<sup>73</sup>.

Asimismo cabe mencionar que el IVA es un impuesto que está en continuo desarrollo y en ese sentido los acuerdos alcanzados en el seno del Pacto Andino lo ponen de manifiesto. El diseño del IVA andino puede resumirse en: a) método de crédito por facturación con base consumo y bajo el principio de destino; con b) la posible adopción en el largo plazo de una lista común para las

<sup>73</sup> Diálogo Fiscal Internacional (2005), Conclusiones Conferencia IVA.

exclusiones de bienes y servicios, básicamente, los servicios sensibles –educación, salud y transporte interno de pasajeros, excepto aéreo– y los servicios de intermediación financiera y (c) la reducción, en los casos que existan tasas múltiples, a un máximo de dos, siendo la tasa general igual o menor a 19%, mientras la tasa mínima no podrá ser inferior al 30% de la tasa general, para facilitar la administración del IVA. El plazo para adecuarse a esta regulación varía dependiendo del tipo de medida siendo el máximo de 10 años.

Por otra parte, los países han invertido grandes sumas en mejorar el cumplimiento del tributo y en ese sentido se podría decir que existe una tendencia hacia la reducción de la evasión en este campo, si bien los estudios que analizan este fenómeno son limitados. Asimismo, se ha producido un proceso de aprendizaje y cooperación no sólo entre los países de la región sino también en relación con las normas seguidas por los países industrializados, a punto tal que los criterios establecidos en la Sexta Directiva de la CE son de uso frecuente en todos los países de la región. Como se observa todo ello contrasta con la evolución seguida en relación con la imposición a la renta.

No obstante estos avances aún subsisten interrogantes en cuanto a los efectos del tributo, especialmente respecto al impacto distributivo del mismo, y por ello los mejores caminos para atender este problema siguen siendo un tema de discusión en los países. Aún el propio proceso de ampliación de la base imponible plantea alternativas en cuanto a sus límites en varios campos, por ejemplo, en el tratamiento de los bienes de mérito o que generen amplias externalidades, en el caso de los instrumentos financieros, el comercio electrónico, y la forma de encarar la aplicación del principio del destino en relación con los procesos de integración a nivel regional.

Si bien existe, desde el punto de vista técnico, consenso de que el uso de la tasa cero debe quedar reservada para el caso exclusivo de las exportaciones, éste no ha sido el comportamiento seguido por varios países que han aplicado la misma a las actividades domésticas buscando atenuar de esta forma el efecto del gravamen sobre los niveles inferiores de renta. Estos mecanismos son ciertamente no recomendables y se considera que su uso debe ser desestimulado. Ello deja abierta la pregunta sobre si es necesario darle cierta progresividad a este impuesto o debe buscarse que sea lo más neutral posible –ampliando totalmente las bases– y dejándole ese rol a la imposición a la renta y al patrimonio.

Como se ha señalado, “la elección entre un IVA con tasa única o un IVA con tasas múltiples depende principalmente de sopesar consideraciones de índole administrativa: suele favorecerse la aplicación de una tasa única cuando se dispone de otros instrumentos que se consideren más adecuados para la consecución de objetivos distributivos, cuya ausencia relativa tiende a favorecer una mayor diferenciación”, tal como se señala en el informe final de la Conferencia sobre el IVA.

En ese sentido se remarca la necesaria interrelación que debería existir entre el tratamiento del IVA y los impuestos selectivos al consumo sobre bienes y servicios. Al respecto se observa que la presencia de estos gravámenes se ha ido concentrando casi exclusivamente en gravar los “vicios” –tabacos y bebidas alcohólicas– es decir que los mismos quedaron relegados a un simple papel recaudador, con un impacto regresivo sustancial dado que esos consumos representan una mayor proporción del ingreso de los sectores de más bajos recursos.

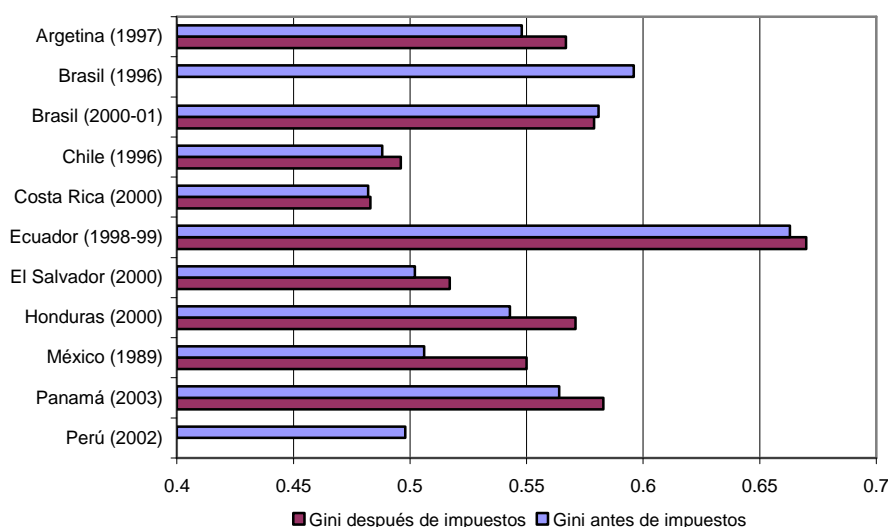
Por el contrario, se observa que si bien no son recomendables las tasas diferenciales en el IVA frente a la aplicación de tasas superiores a la general, una combinación con la imposición selectiva podría resultar en una mejor opción.

En síntesis, el papel de la imposición selectiva se ha ido relativizando a lo largo de las últimas décadas y por ello cabe preguntarse si la discusión sobre la imposición selectiva no requeriría de un análisis global en el marco de la imposición al consumo y cual debe ser el papel de la misma.

#### 4. Los efectos de los impuestos en AL: equidad y eficiencia

Mientras que en muchos países desarrollados se observan altos coeficientes de concentración de rentas antes de la acción pública (impuestos y transferencias), con posterioridad a la misma tienden a mejorar los índices de concentración. Por el contrario en gran parte de los países de América Latina y a partir de la evolución de los índices de Gini observados en el Gráfico IV.6 se observa que la distribución del ingreso después de impuestos tiene una mayor concentración que antes del efecto de los impuestos, es decir que el efecto del sistema tributario es regresivo. Lamentablemente esto ocurre en una de las regiones del mundo que presenta datos de extrema desigualdad.

**GRÁFICO IV.6**  
**AMÉRICA LATINA: EFECTOS DISTRIBUTIVOS DE LA POLÍTICA TRIBUTARIA**  
**(COEFICIENTES DE GINI ANTES Y DESPUÉS DE IMPUESTOS)**



Fuente: Gómez Sabaini (2005-b).

Si bien es frecuente mencionar que la acción del estado en esta materia es llevada a cabo de una manera más efectiva y eficiente a través de la acción del gasto público, permanece aún la pregunta respecto a qué papel le cabe a los impuestos en materia distributiva, en el sentido de si ambos instrumentos –impuestos y gastos– deben ser considerados como medios alternativos o complementarios para lograr en el largo plazo mayor eficiencia con mayor equidad.

Al respecto se observan innumerables casos en que las normas tributarias afectan los resultados obtenidos en materia distributiva, gravando distinto a los que están en las mismas circunstancias, afectando el principio esencial de la equidad horizontal. Por ello la inquietud no debe ser sólo sobre cómo mejorar la equidad vertical, sino especialmente cómo evitar los desequilibrios horizontales. Si bien el nivel global de tributación en la región ha aumentado a lo largo de las últimas décadas, la presencia de la imposición a la renta personal no ha crecido en su participación, mientras que al mismo tiempo el grado de desigualdad regional ha aumentado.

Esta situación plantea la necesidad de repensar el papel de cada uno de los gravámenes en el contexto general de la estructura tributaria de los países, y como señalan Bird et al. (2004) dar una mirada en detalle a la orientación de las reformas que se van produciendo, más que a la situación

pasada. Los estudios de incidencia distributiva muestran, sin dejar de señalar las limitaciones metodológicas y de bases informativas de los mismos, que el efecto redistributivo de los sistemas tributarios es en una gran cantidad de casos regresivo, ya que la estructura tributaria está dominada por los impuestos indirectos, con un menor peso de los impuestos al capital y la riqueza.

En ese sentido nos preguntamos respecto al grado de avance en la eficiencia de las administraciones tributarias, ya que en la medida en que las mismas sean débiles y con imposibilidad de lograr un cumplimiento aceptable, se facilitan las vías para una sustancial evasión tributaria, que da lugar a una brecha significativa entre la tasa legal y efectiva de los gravámenes, por lo cual no se logran los objetivos esperados. Asimismo la corrupción y el bajo grado de institucionalidad de los gobiernos también establecen un límite a la efectividad de las medidas redistributivas.

Resulta difícil desvincular la importancia que han tenido los incentivos tributarios otorgados por los países de los cambios ocurridos en cada momento en su grado de apertura comercial, ya que en muchos de ellos estos beneficios impositivos o bien formaron parte del andamiaje para estimular la entrada de inversión extranjera directa destinados a fortalecer el proceso de sustitución de importaciones, o bien estuvieron destinados a construir una salida exportadora a través de las zonas francas.

Lo que no resulta tan claro son los resultados logrados, ya sea por la ausencia de análisis específicos, por las dificultades de información o posiblemente por la falta de interés en conocer los actores de estos procesos. Las cuantificaciones efectuadas, siguiendo las distintas alternativas para estimar los “gastos tributarios”, son claramente significativas si bien las alternativas metodológicas no recomiendan sacar conclusiones que sean el resultado de efectuar comparaciones entre países.

No obstante ello algunas experiencias pueden ser relevadas. En primer lugar, se observa que los países desarrollados recurrieron en mayor medida a los instrumentos sustentados en la imposición a la renta, en lugar de echar mano a la imposición al comercio exterior y a los consumos. En segundo lugar, el carácter de los beneficios otorgados ha sido más bien de tipo automático y contenido en las normas generales de los impuestos, mientras que por el contrario en la región latinoamericana se apeló más a mecanismos discrecionales y legislados en textos independientes referidos a sectores o actividades especiales. En tercer lugar, países como EE.UU. y Canadá, tienen un peso significativo en materia de gastos tributarios lo que está señalando un activo papel del estado en esta materia, y los beneficios otorgados son transparentados a través de su inclusión en el presupuesto federal.

En ese sentido, la información disponible no arroja luz sobre el papel cumplido por los impuestos en los procesos de movilización de ahorros e inversión, ya que si bien actualmente se puede tener alguna información en materia de los costos fiscales no quedan claros los resultados obtenidos. Ello abre una serie de interrogantes no sólo respecto de los objetivos en materia promocional sino también sobre respecto a cuáles son los mejores instrumentos de promoción a ser utilizados y cuál es la capacidad del estado en el proceso de administración y gestión de los mismos.

## **5. La economía política de las reformas tributarias en AL**

Resulta evidente que –por distintas razones– la mayor parte de las reformas requeridas para mejorar el nivel de la tributación, eliminar los impuestos que alteran la neutralidad económica y reducir la inequidad en la distribución de la carga entre niveles de ingreso no se han llevado a cabo.

Esta aparente inmovilidad se explica por un lado por una serie de elementos intrínsecos a la propia realidad política de los países y que condicionan sus decisiones en materia de política económica, y por otro por la debilidad en el desarrollo institucional de las administraciones tributarias requeridos para poner en práctica medidas que requieran de un mayor grado de eficiencia y de capacidad de gestión. En los hechos, ambos elementos no son totalmente independientes, y no resulta casual que en los países donde las “élites” son más fuertes las administraciones tributarias son más débiles.

América Latina es el continente que registra los mayores niveles de desigualdad de ingresos, y este desequilibrio se ha ido acentuando en el transcurso de los años pasados recientes, a pesar de que la región ha crecido en términos del PIB per cápita y los coeficientes de pobreza e indigencia se han ido reduciendo<sup>74</sup>. En ese sentido algunos autores han desarrollado la tesis de que ha sido la extensión de la desigualdad de ingresos en la región la que ha influenciado el diseño y la implementación del sistema tributario. Ello genera un círculo vicioso de desigualdad de ingresos y regresividad tributaria, en lugar de un círculo virtuoso que posibilite a través del esquema tributario la corrección de los grandes desequilibrios de ingreso.

Como señalan Sokoloff y Zoltz (2005) la evidencia sugiere que la larga historia de desigualdad que ha tenido lugar en la región es un elemento central para comprender las características distintivas de los sistemas tributarios de América Latina, y al mismo tiempo señalan que el patrón histórico de comportamiento de los grupos de “elite” muestra que los mismos han soportado una carga tributaria “liviana” a lo largo de los años.

Visto desde la óptica política es evidente que la desigualdad social puede resultar en la generación de “grupos de elites” que buscan minimizar su carga tributaria relativa, ya sea controlando el proceso legislativo o procurando que el mismo legisle normas tributarias con esos efectos, para de esa forma trasladar un mayor porcentaje de la carga tributaria a los sectores de menores recursos. También es factible esperar que bajo ese entorno se generen presiones para que los mismos “grupos de elite” busquen controlar el proceso de implementación y control de las normas fiscales, así como diseñar normas administrativas que tengan un efecto más beneficioso para los mismos, tales como los blanqueos, las moratorias y otras medidas semejantes. En esas circunstancias se torna más difícil el diseño de estructuras tributarias progresivas.

Asimismo en economías con extensas clases pobres, es factible encontrar altos niveles de informalidad tanto en los mercados laborales como de bienes y en esas circunstancias el diseño de los sistemas tributarios con un cierto grado de igualdad no resulta ser sencillo, ya que la informalidad de la economía dificulta la posibilidad de administración eficiente de los instrumentos tributarios.

En síntesis, la ausencia de una sustancial clase media se presenta como un limitante crítico para el desarrollo de un impuesto personal a la renta que alcance a por lo menos el 20% de la población de mayores ingresos, y que lo haga de manera amplia y generalizada respecto a todo tipo de renta.

Por otra parte, se ha observado que mientras que los países desarrollados han ampliado y extendido en mayor medida las bases imponibles resultando en consecuencia que la recaudación del tributo no sólo no se reduzca sino que la misma ha crecido, el movimiento conjunto o simultáneo de reducción de tasas y ampliación de bases no ha tenido un correlato equivalente en el campo tributario de América Latina ya que la expansión de las bases imponibles, eliminando

<sup>74</sup> Véase CEPAL, 2007-a, y Sokoloff y Zolt (2005).

exenciones, deducciones especiales y tratamientos preferenciales, no se ha dado en la mayor parte de estos países<sup>75</sup>.

En ese sentido debe señalarse –una vez más– el tratamiento preferencial que han recibido y siguen recibiendo las rentas generadas por el sector financiero en gran parte de los países, debido a normas legales que han protegido a los mismos, y debido a ineficientes mecanismos de control que han hecho que buena parte de esas rentas financieras no tributen en la práctica.

Argumentos sustentados en la gran apertura y movilidad del mercado financiero que ha tenido lugar en todos los países de la región, así como el hecho de que un buen porcentaje de las carteras de ahorros de personas y de beneficios de empresas son colocadas en el exterior, -bien sea en países desarrollados que no están dispuestos a aplicar mecanismos de retención de impuestos en la fuente o bien que son colocados en paraísos fiscales-, han tenido como efecto que en la mayor parte de los casos las rentas financieras escapan a todo tipo de tributación, tanto en la fuente como en el lugar de residencia de los contribuyentes.

Asimismo, el insuficiente desarrollo de las administraciones tributarias no ha tenido todo el éxito que hubiese sido deseable para alcanzar a los sectores “duros de gravar”, como son los sectores informales, el sector agropecuario, los sectores de profesionales independientes, y las pequeñas empresas. Complementariamente a esta situación es claro que las economías han experimentado un crecimiento sustancial de los servicios, y ello agrega aún nuevas y mayores dificultades para el control eficiente por parte de las administraciones tributarias.

Así, resulta evidente remarcar que el diseño de la política tributaria en los países en desarrollo debe tomar muy especialmente en consideración la dimensión administrativa para lograr sus objetivos, pero sin que ello implique que los objetivos de política económica queden subrogados a dicho nivel de gestión, ya que existen diversos mecanismos que pueden ser utilizados para mejorar dicho nivel.

En ese sentido se reconoce que el tema está centrado en lograr un adecuado balance entre la obtención de una mejor equidad distributiva, la reducción de las distorsiones económicas y la consideración del estado de la administración tributaria, en cada circunstancia particular. Al respecto pareciera ser que en las últimas décadas en América Latina el “adecuado balance” no ha sido tal, sino que las orientaciones en materia tributaria han estado fuertemente influenciadas por los objetivos de eficiencia, con un menor peso por los temas distributivos.

El conjunto de los factores señalados está indicando los enormes desafíos existentes para cambiar el sesgo del sistema tributario, para lo cual debe ponerse de manifiesto la necesidad de que exista un “ambiente político” adecuado para llevar a cabo los cambios requeridos, ya que en presencia del mismo son muchas las medidas que pueden ser adoptadas.

Por una parte, en los últimos años se ha observado un avance significativo en el conocimiento y transparencia de la información respecto a los sujetos que se han beneficiado y se siguen beneficiando con los incentivos diferenciales que otorga el sistema. Esta información no se encontraba disponible en épocas pasadas y los esfuerzos realizados en procurar una mayor transparencia impulsada por el entorno internacional han llevado a que en varios países de la región se haya instalado el tema a nivel legislativo.

La publicación de los textos completos y ordenados de la legislación, la difusión de los “gastos tributarios” que cuantifican el monto de los beneficios otorgados, el conocimiento público del nombre de los principales deudores al Fisco, la eliminación de los secretos financieros y

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<sup>75</sup> Al respecto puede consultarse el análisis efectuado por Keen y Simone (2004).

bursátiles en casi todos los países, la difusión de los fallos de los tribunales fiscales, son todos factores que contribuyen al cambio.

Por otra parte, es evidente que el nivel tecnológico actual permite a las administraciones tributarias, si es correctamente aplicado, convertirse en una herramienta de un enorme valor que con anterioridad no se disponía. Actualmente a través de los sistemas informáticos es factible el manejo de grandes bases de datos externos sobre el comportamiento de los contribuyentes que, en los hechos, permite que sea la misma administración tributaria la que efectúe la declaración en nombre del mismo, tal como se está llevando a cabo en algunos países de la región, por ejemplo en el caso de Chile.

Igualmente, los sistemas de retención en la fuente pueden ser actualmente generalizados sin que ellos presenten grandes dificultades para la administración tributaria, la que recibe la información por parte de aquéllos que han retenido el gravamen en la fuente sin mayores complejidades, mientras que este mecanismo -muy difundido en los países desarrollados- constituía antes un enorme problema de cruce de información. Esto permite la captura de datos en tiempo real y las posibilidades de conocer de manera general las transacciones entre distintos sectores económicos.

De igual manera se señala que los países han encontrado conveniente avanzar en convenios de intercambio de información, lo que denota un esfuerzo de cooperación entre los mismos ya que mediante ellos es posible potenciar sus propios esfuerzos, y ello refuerza la posibilidad de aplicación de estos gravámenes.

En síntesis, la experiencia muestra que tres elementos son esenciales para lograr una mejora en la eficiencia de la administración tributaria en cualquier país:

1. la voluntad política de implementar efectivamente las normas tributarias votadas por los legisladores;
2. una estrategia administrativa claramente definida y continuada a lo largo del tiempo a fin de lograr cada uno de los objetivos propuestos;
3. una dotación flexible de recursos, humanos y financieros, que sean necesarios para lograr dichos objetivos.

La experiencia observada en los países resulta ser contradictoria o ambigua en esta materia, ya que a la vez que los objetivos son cambiantes, las estrategias seguidas por las administraciones también se van modificando constantemente en cada uno de los ámbitos en que éstas se desarrollan y se observa una insuficiencia sistemática de recursos para el cumplimiento de los fines propuestos. Por otra parte no puede dejar de mencionarse la existencia de “interferencias políticas” en la gestión de los Fiscos que muchas veces condiciona la actividad de los mismos.

## **6. Algunas circunstancias que pueden darle viabilidad a las reformas tributarias en América Latina**

Mahon (1997) analiza algunas circunstancias en torno a muchos de los cambios operados en materia de la estructura tributaria en América Latina considerando para ello cuatro posibles eventos que le dan viabilidad a las mismas:

- a. como el resultado de situaciones de crisis económicas;
- b. como la acción de gobiernos recientemente electos;
- c. como consecuencia de la existencia de regímenes autoritarios;
- d. como resultado de presiones internacionales, ya sea por que el contexto externo conduce a las mismas, o como consecuencia de condicionalidades existentes.

Complementando los puntos señalados, cabe mencionar además como un quinto determinante que ha operado sobre la estructura tributaria en las últimas décadas, la debilidad de las administraciones tributarias –tema discutido en la sección anterior– por lo que el fortalecimiento de las mismas es un elemento central para habilitar la aplicación de reformas tributarias.

a) En relación con la primera de las posibles explicaciones se observa que los cambios más sustanciales en la estructura de los países son usualmente posibles durante los períodos de crisis, ya que en esas circunstancias es factible superar la oposición política y la inercia administrativa que normalmente bloquea los cambios significativos. En ese sentido, los ejemplos de situaciones de crisis en América Latina que han facilitado la aplicación de reformas profundas, tanto en el ámbito tributario como en otras políticas públicas, resulta ser más que abundante. Para el caso cabe mencionar en Argentina las leyes de emergencia económica de 2002 que posibilitaron la aprobación de medidas tributarias que habían sido rechazadas a nivel legislativo no muchos años antes. Es evidente que esta proposición es especialmente importante cuando se trata de efectuar cambios tributarios que tienen serias implicaciones redistributivas, que serían frontalmente rechazadas de no estar presentes las circunstancias de crisis. Nuevamente en el caso de Argentina varias de las reformas contenidas en las leyes impositivas aprobadas en diciembre de 1999, especialmente en materia de imposición sobre las personas físicas, han encontrado sustento en esa situación.

En la actual fase expansiva, caracterizada por un inédito crecimiento de los ingresos fiscales (véase Cepal, 2007-b), el panorama de reformas es bastante reducido, con la excepción de la reforma fiscal de México. En los demás países, parece ser que, al cumplirse o sobrepasarse las metas de recaudación, los incentivos para cambiar los sistemas tributarios han disminuido fuertemente. De hecho, la discusión sobre la inequidad de los sistemas se reduce a algunos círculos académicos, y no trasunta en proyectos legislativos tendientes a modificar los defectos anotados, que por lo demás son ampliamente conocidos.

b) De igual manera, es válido considerar también los ciclos electorales como un vehículo que facilita la adopción de cambios significativos. En ese sentido es factible observar en muchos países que las reformas tributarias tienen lugar en los primeros meses de un nuevo gobierno cuando todavía el mismo goza del crédito otorgado por los ciudadanos que lo llevaron al poder. Al respecto se observa que muchas reformas han tenido lugar en el primer año de gobierno y que luego las discusiones en torno a las mismas tienen un plazo de gestación significativamente mayor.

c) Por último, no puede dejar de mencionarse la presión externa ejercida ya sea como consecuencia de programas económicos sujetos a condicionalidades de política económica, como también la presión ejercida por las propias tendencias externas en la materia. En el ámbito tributario, como posiblemente en pocos otros del quehacer económico, el “efecto de imitación de hacer como el vecino” encuentra un gran espacio y así se observa que los sistemas tributarios de la región han estado sujetos al paso de distintas corrientes, siendo una de las más fuertes la aplicación del IVA de forma generalizada en todos los países.

d) Tal como se ha señalado, se observa que ha sido la debilidad de las administraciones tributarias la que de una u otra manera ha influido en las orientaciones de muchos de los cambios tributarios observados en algunos países en los últimos años. Estos cambios han tendido como propósito trasladar parte de las responsabilidades propias de una administración tributaria eficiente a cabeza de los propios contribuyentes utilizando sistemas que pueden ser considerados como “sustitutos imperfectos” al diseño de un buen sistema tributario. Nos estamos refiriendo en ese aspecto a impuestos tales como el gravamen sobre “activos empresariales” o el referido a los “impuestos a las actividades financieras”, así como otras iniciativas que han procurado instalar en el centro de la escena al sector financiero como núcleo del sistema de cobranza de impuestos a nombre del Fisco.



e) Frente a las dificultades legales y administrativas para incrementar la recaudación del impuesto a la renta societaria, es un hecho ya generalizado en la región la adopción de distintos métodos de determinación de carácter complementario en algunos casos, o sustitutivo en otros, con el fin de mejorar los resultados obtenidos. Los mismos se han basado en la aplicación de un gravamen que determine una “base presunta” a fin de determinar un monto mínimo de impuesto a la renta, más allá del resultado efectivo que se obtendría como consecuencia del impuesto a la “renta neta” de las sociedades. Algunos países emplean para esos propósitos como base imponible presuntiva el valor de los activos, o en otros casos –y más recientemente– se ha utilizado el monto de las ventas brutas, o ingresos brutos, antes de deducir costos y gastos para la obtención de las mismas. El gravamen así determinado es considerado como una suma mínima a pagar, ya que cuando la determinación del monto de impuesto que se efectúa tomando en cuenta los criterios de renta neta arroja resultados superiores, el contribuyente deberá ingresar el excedente determinado, caso contrario el impuesto sobre los activos o sobre las ventas brutas permanece como un umbral del cual no podrá descenderse. En los hechos, la aplicación de estos gravámenes es el resultado innegable de las limitaciones que enfrentan los países, tanto desde el punto de vista legal como administrativo, de aplicar una estructura impositiva en la cual las tasas nominales o legales utilizadas estén en consonancia con las tasas efectivas resultantes, pero estos sistemas de hecho conducen a la eliminación del impuesto societario sobre la renta, y convierten al gravamen en un quasi-impuesto en cascada, agravando los problemas de eficiencia económica.

f) En lo que respecta a los impuestos sobre los débitos y créditos bancarios, el uso de estos gravámenes ha respondido básicamente a las urgencias de obtener rápida respuesta recaudatoria, trasladando la responsabilidad de su ingreso a las instituciones financieras, teniendo en cuenta la debilidad de las administraciones fiscales las cuales asumen un papel menor en su captura. Si bien los mismos fueron introducidos con el propósito específico de mejorar los recursos en el corto plazo y con un carácter de emergencia, más que como un instrumento pensado para permanecer en la estructura tributaria, su exitosa respuesta en algunos de los países esta dificultando posteriormente su reemplazo sin afectar el nivel de ingresos. En ese sentido la evidencia en la materia muestra que efectivamente los mismos han sido eficaces en la obtención de ingresos en el corto plazo pero al mismo tiempo, como señalan Coelho, Ebrill y Summers (2001), la respuesta del mercado al impacto del impuesto indica que existen efectos adversos, incluyendo en particular un grado significativo de desintermediación financiera. Por otra parte, Baca-Campodonico, de Mello y Kirilenko (2006) confirman esta tendencia y señalan asimismo que esta fuente de recursos puede no ser tan segura en el largo plazo.

En síntesis, se observa que los sistemas tributarios vigentes han sido el resultado de una serie de “decisiones de compromiso” adoptadas bajo distintas circunstancias, que van desde las posibilidades que brinda una situación de crisis hasta las limitaciones que impone la capacidad institucional para recaudar impuestos. Estos límites –entre uno y otro escenario– no han sido ni remotamente iguales en todos los países y por ello los resultados observados en materia de las estructuras tributarias de cada país es la consecuencia de hechos específicos que deben ser evaluados a la luz del análisis de cada caso particular.



## V. Does Fiscal Decentralization Help Create Fiscal Space?

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### 1. Introduction

In the last few years, a significant literature on “fiscal space” has developed, reflecting policymakers’ concerns about creating room for new spending priorities within tight budget environments. These concerns relate especially to infrastructure gaps (for example in Latin America, where there is a perception that fiscal consolidation has come at the expense of public investment) and/or to needs for social spending to meet the Millennium Development Goals (MDGs)<sup>77</sup>. Moreover, as longer-term fiscal challenges –related to ageing, climate change, and globalization, to name just a few– become more and more evident, creating fiscal space to accommodate their costs is likely to gain increasing importance in the next several decades in many countries around the world.

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<sup>76</sup> The views expressed in this paper are those of the authors and should not be attributed to the International Monetary Fund, its Executive Board, or its management. We are indebted to Sanjeev Gupta and Ehtisham Ahmad for their useful comments and suggestions, and to Annette Kyobe for able research assistance. The paper’s analysis and policy recommendations draw extensively on previous work in the IMF’s Fiscal Affairs Department. This paper was previously presented at the Seminar on “Effectiveness of Decentralized Strategies and Outcomes”, Moncalieri, September 3-4, 2007.

<sup>77</sup> The concept of fiscal space received a systematic definition in Heller (2005), addressing the debate of how to accommodate additional spending to reach the MDGs in low-income countries. IMF (2004) reviews the issue of creating room for productive public investment, originally raised by Latin American constituencies.

This paper focuses on one particular dimension of the fiscal space debate, namely **the possible relationship between fiscal space and fiscal decentralization**. Thus far, the fiscal space literature has implicitly assumed a single-tier government, in which decisions about the fiscal stance and the composition of spending are made by a central authority. In a world where a large and growing share of public expenditures is carried out by subnational governments, a key question is whether fiscal decentralization can help create room for additional spending, without jeopardizing the macro-economic stability or longer-term fiscal sustainability of a country. This latter provision deserves special attention, as a large strand of the fiscal federalism literature highlights how subnational governments can be a source of fiscal pressures, preempting rather than freeing fiscal space.

This paper discusses under what conditions, regarding the design and implementation of intergovernmental fiscal arrangements, decentralization can help create fiscal space. It draws on the experiences of countries at various levels of development, which have been analyzed by IMF staff in the context of surveillance or technical assistance. A key lesson from such experiences is that decentralization of spending responsibilities does not by itself create fiscal space. This is because macro-economic and/or financial constraints on fiscal balances and the size of the public sector relate to the general government rather than the central government alone. On the other hand, to the extent that decentralization promotes additional efficient own-revenue generation by subnational governments, and/or it leads to more efficient and better-prioritized spending, it can create genuine increased fiscal space to meet new spending needs.

The rest of this paper is structured as follows: Section 2 briefly reviews “why” fiscal decentralization is increasing, and “how” it can be made consistent with macroeconomic stability. Sections 3 and 4 examine the conditions under which fiscal decentralization can promote the creation of fiscal space, by raising subnational revenue, and/or improving the prioritization and enhancing the efficiency of subnational spending, respectively. Section 5 briefly summarizes key policy conclusions.

## 2. Some macroeconomic dimensions of fiscal decentralization

**Fiscal decentralization is becoming increasingly popular around the world<sup>78</sup>**. A number of reasons explain why. From a political perspective, fiscal decentralization is often seen as a way to promote democratization, bringing decisions closer to citizens through enhanced participation. In some cases, providing greater “voice” to subnational jurisdictions is also seen as a way to help resolve regional or ethnic conflicts. From an economic point of view, the rationale for fiscal decentralization is less clear-cut; while decentralization has the potential to improve spending efficiency, by creating competition across jurisdictions and better targeting expenditure programs to end-users’ preferences, the empirical evidence so far is not conclusive.

There are **varying degrees of fiscal decentralization** (Box V.1). The latter is not necessarily related to the system of government; a unitary state can be more fiscally decentralized than a federal state (see Arzaghi and Henderson, 2005).

<sup>78</sup> In this paper, subnational governments refer to levels of government below a (broadly defined) central government level. Thus, the analysis below applies to both unitary and federal types of governments. In some cases this distinction is anyway not clear-cut; for example, the Nordic countries are unitary states with a constitutionally-defined principle of local self-government.

### BOX V.1 DEGREES OF FISCAL DECENTRALIZATION

Fiscal decentralization is usually measured by the share of subnational governments in general government revenue and spending. This is, however, an imperfect indicator of the degree of effective decentralization of both revenue-raising and spending responsibilities. Ideally, it would be desirable to include in the measure of decentralization information on the degree of autonomy of subnational government in exercising such responsibilities. Unfortunately, no standardized indicator, that would allow reliable international comparisons in this area, has been developed to date.

A comparison of OECD countries, based on the conventional measure<sup>a</sup> suggests that in the early 2000s:

The degree of decentralization varied considerably across countries, from a low of 5 percent for Greece to a high of 60 percent for Canada.

The degree of fiscal decentralization of a country was not necessarily related to its political structure. Some unitary countries, for example the Nordic ones, were more decentralized than federal countries, as their subnational governments played a large role in public service delivery.

In all countries, the share of subnational spending exceeded (sometime widely) the share of subnational revenue, implying significant recourse to central transfers. This may have implications for the “effective” degree of decentralization (namely, spending autonomy), as transfers may not come “unencumbered.”

Source: Author.

<sup>a</sup> In addition to conceptual shortcomings, cross-country comparisons of decentralization are subject to significant data limitations. Government Finance Statistics (GFS) provide the only comprehensive and consistent database on fiscal indicators of various government levels, although data is incomplete for some countries. For data on OECD countries, see [www.oecd.org/ctp/federalism](http://www.oecd.org/ctp/federalism).

Decentralization can give rise to **significant challenges for macroeconomic management** (Ter-Minassian, 1997). In particular, it can weaken the central government’s control over fiscal outcomes, with potentially adverse effects on macroeconomic stabilization and fiscal sustainability. Specifically, the devolution of substantial spending powers to subnational governments may hamper the central government’s ability to curb excess demand pressures through expenditure consolidation. Moreover, revenue-sharing may lessen the countercyclical impact of increases in the shared taxes, to the extent that the additional shared revenue is spent by the recipient subnational governments. In addition, excessive subnational borrowing can threaten monetary control or lead to crowding out in the short run, and can create pressures for central government bailouts over the longer run. The difficulties potentially posed for macroeconomic management by the combination of a high degree of decentralization and a poor design of intergovernmental fiscal arrangements have been highlighted in various contributions to the fiscal federalism literature, as well as by the experience of a number of countries, especially in Latin America<sup>79</sup>.

Against this background, a key issue is **how to design (or reform) the system of inter-governmental fiscal arrangements**, to ensure that progressive decentralization of spending responsibilities does not create significant macro-economic risks, and safeguards medium-to-long term fiscal sustainability. International experience points to a number of lessons in this respect.

First, a broad **ex-ante matching of spending responsibilities with revenue sources at each level of government** needs to be ensured. In other words, subnational governments should be provided, through an appropriate combination of own revenue-raising powers and inter-governmental transfers, adequate resources to carry out their spending responsibilities with a normal/average degree of efficiency. An excess of subnational resources (for example, when revenues are devolved before a clear reassignment of spending responsibilities, as in the cases of Colombia and of a number of resource-rich countries, including the Democratic Republic of Congo) tends to lead to spending inefficiencies and waste. In contrast, insufficient resources (for example, when spending responsibilities are pushed down by the central government without a corresponding reassignment of resources, as was the case in a number of transition economies during the 1990s), tend to result in

<sup>79</sup> See, for example, Prudhomme (1994), Ter-Minassian (1997), Tanzi (2001), Ahmad and Brosio (2006), and de Mello (2000). Fornasari, Webb, and Zhou (2000) find that fiscal decentralization tends to be associated with higher fiscal deficits.

excessive subnational borrowing, accumulation of arrears or the inability of subnational governments to provide essential public services. For instance, in China, provinces and lower levels of governments are largely responsible for the provision of social services such as healthcare and education, as well as providing for social security. As revenue capacity varies significantly and central transfers, albeit increasing over the years, have proved insufficient to cover spending needs, this has resulted in a severely uneven distribution in the quality of public services, with the poorer inland regions not being able to carry out their mandates effectively.

Second, **the enforcement of hard budget constraints on subnational governments** is crucial to maintain fiscal discipline. This requires a credible no bailout policy from the center, otherwise subnationals may have incentives to over-spend and/or under-tax, in the expectation that the central government will not let them fail. Such expectation may be even stronger when subnational governments are responsible for delivering public services that are deemed essential, and a possible disruption in their provision would not be viewed as politically acceptable<sup>80</sup>.

Third, and related to the enforcement of hard budget constraints, there is the issue of whether and to what extent subnational governments should be allowed to borrow. There is a vast literature on **approaches to the control of subnational borrowing**, based on a taxonomy originally developed in Ter-Minassian and Craig (1997) (Table V.1).

Empirical evidence to date suggests that **no one type of borrowing arrangement works best under all circumstances**. A number of economic, institutional, and political factors affect the appropriateness of different types of borrowing controls. These factors include among others: the degree of vertical and horizontal imbalances among and within levels of government; the existence of bailout precedents or of privileged channels of financing for subnational governments; and the quality of their fiscal reporting (Plekhanov and Singh, 2006).

**TABLE V.1**  
**APPROACHES TO THE CONTROL OF SUBNATIONAL BORROWING**

Approach	Market Discipline	Cooperative Approach	Rule-based Controls	Administrative Controls
Advantages	<ul style="list-style-type: none"> <li>✓ Emphasis on self-control.</li> <li>✓ Monitoring by credit rating agencies.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Promotes dialogue.</li> <li>✓ Enhances responsibility of subnational policymakers.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Transparent.</li> <li>✓ Avoids bargaining.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Potential central government (CG) control.</li> <li>✓ Better terms and conditions.</li> <li>✓ Useful for foreign borrowing.</li> </ul>
Preconditions	<ul style="list-style-type: none"> <li>✓ Comprehensive, timely, and reliable information.</li> <li>✓ Developed financial markets.</li> <li>✓ No access to privileged financing.</li> <li>✓ No previous history of bailouts.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Constitutional underpinnings.</li> <li>✓ Culture of fiscal discipline.</li> <li>✓ Existence of institutions for cooperative decision-making or strong bargaining position of central government.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Sound and credible rules (well defined, transparent, and flexible).</li> <li>✓ Clear coverage and full information needed.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Ability of CG to effectively monitor and implement controls.</li> </ul>
Examples	Canada Australia	Argentina Austria Denmark Domestic Stability Pacts in some EU countries	Brazil Chile Spain United States	China France Japan United Kingdom Former Soviet Union

Source: Based on Ter-Minassian and Craig, 1997.

<sup>80</sup> Bordignon and Turati, for example, note that Italian regions, charged with the provision of constitutionally mandated health services, have been bailed out a significant number of times over the last few decades.

The issue of regulating subnational borrowing is actually **more complex than the taxonomy might suggest**. As new financing instruments have proliferated over the years, due to financial deepening and increased sophistication of private capital markets, subnational borrowing can take on a number of complex forms, going beyond the “traditional” financing channels such as bank loans and issuance of securitized debt. For example, the increased use of **Public Private Partnerships (PPPs)** has brought to the fore issues of under what circumstances these should be considered as part of government debt and/or creating significant fiscal risks—these are all the more relevant as more governments, national and subnational, view these instruments as an easy way of evading budget constraints and borrowing limits (see Box V.5 below). Similar considerations apply to the **various securitization operations** (for example, of real estate or future revenue flows). The case of the Lazio region in Italy comes to mind: Lazio has extensively engaged in such operations, and the equivalent of 0.8 percent of (national) GDP in hidden debt was discovered last year.

Appropriate **monitoring mechanisms for subnational borrowing** are very important, especially in countries where de jure or de facto the central government is likely to be the “lender of last resort” for its subnational jurisdictions. To this end, a registry of subnational borrowing (including any provision of guarantees to their enterprises, and other contingent liabilities) should be created and regularly updated. Even in cases where such registers exist at the subnational level, there may be a need to ensure that the information is consolidated at the central level and made consistent and comprehensive across jurisdictions, also to allow a regular and reliable flow of information to the market. In Mexico, for example, following the subnational debt crises of the 1990s, a market-based debt management system has been significantly strengthened, including through sounder banking regulations, provisioning requirements, and credit ratings. However, the absence of standardized debt limits and regulations and the lack of standardized information on the budgetary operations of subnational governments may create risks. It would be important, in particular, to strengthen the coverage of and coordination among the different subnational debt registries, to include, inter alia, the use of new financing instruments such as revenue securitization and PPPs.

The creation of **appropriate supporting institutional mechanisms** is also key to the success of fiscal decentralization<sup>81</sup>. A **legally robust and transparent framework**, clarifying the respective roles and responsibilities of each level of government, and setting out suitable mechanisms to promote dialogue and policy coordination among them, is crucial to ensure effective implementation of any system of intergovernmental fiscal relations. **Standardized information flows on subnational operations** would provide a consolidated picture of government operations at *all* levels; allow the central government to monitor regularly subnational finances, so as to safeguard macroeconomic stability and debt sustainability; and help ensure effective service delivery throughout a country, by also providing a basis for subnational governments—as well as their electorates—to assess their own performance vis-à-vis other entities/jurisdictions. Consistency of information flows is also important—and tracking government operations from below-the-line can provide a powerful consistency check with data on above-the-line revenue and spending. In some countries (for example, Brazil), a **central government office** has the legal mandate to regularly monitor and report on subnational finances, and assess their macro-economic and overall fiscal impact. The task of such a unit can obviously be facilitated by the application of uniform transparency requirements, and the adoption of internationally accepted standards for budget classification, accounting, and reporting across subnational jurisdictions (albeit perhaps with simplified requirements for small local authorities).

<sup>81</sup> Ahmad and Brosio (2006) provide a comprehensive review of this literature.

Finally, the **speed of decentralization** should be related to subnational capacity. Where there are significant differences across government levels in terms of development and institutional preparedness, consideration should be given to adopting asymmetric (or “two-speed”) arrangements, with more rapid devolution of spending responsibilities to the more advanced subnational governments (such as main urban centers; the case of Bogotá is illustrated in Box V.2). A few countries have used asymmetric decentralization (including Brazil, Italy, Russia, Spain, and, most recently, Macedonia), mostly for political or geographical reasons (Joumard and Kongsrud, 2003).

#### BOX V.2

#### COLOMBIA: EFFECTIVE DECENTRALIZATION IN BOGOTÁ

The city of Bogotá provides a good example of how a major transformation in fiscal management and service provision at the local level can take place when effective decentralization is implemented. Over the last 15 years, the city managed to increase dramatically its resources and use them to improve its service delivery –not an easy task in a city with a population of over 7 million. From a city facing a severe financial and urban crisis in the late 1980s, with public utilities, education, health, urban transport, and sanitation services in disrepair, the city has turned around to become a beacon of modern management and transformation, due to three main factors:

The sequencing of the decentralization process in Colombia, starting from the popular election of mayors and ending with the granting of greater administrative autonomy, led to a major shift in the balance of intergovernmental powers in favor of subnational governments. Popular elections opened the door to the selection of (sometime independent) mayors with great leadership skills, who are largely credited with the turnaround in the city's predicaments.

Asymmetries in the decentralization process (enshrined, among others, in a 1993 special charter giving the city greater fiscal, political, and administrative autonomy), paved the way for tax and spending reforms. On the revenue side, a new gasoline tax was introduced, rate were increased (mainly for the Industry and Commerce tax–ICA), and tax bases were expanded (for property and vehicle taxes) –these resulted in a significant increase in the city's revenue. On the spending side, the city improved the management of public utilities and social services. Entities that were no longer needed or that were extremely inefficient were eliminated, others were merged, excessively large staffs were reduced, and wages were kept under control; for example, hospitals were merged or shut down, hospital staff was reduced, and results-oriented management and competition with private hospitals were introduced. In addition, the city significantly expanded the opportunities for private participation in the provision of services, through the adoption of concession arrangements.

Bogotá has also placed emphasis on the market as a fiscal disciplinary factor, welcoming private participation to improve the management and reduce the cost of services, and implementing fiscal transparency measures to ensure that the market and the political and social control mechanisms function efficiently.

Source: Author.

### 3. Creating fiscal space through revenue mobilization at the subnational government level

This section discusses the extent to which decentralization of taxing powers can help efficiently mobilize additional revenue, thereby increasing fiscal space. The scope in this respect largely hinges on the capacity of, and incentives for, subnational governments to expand in a cost-effective manner own revenues.

As shown in Table V.2, the degree of autonomy of subnational governments in raising the revenues needed to finance their spending responsibilities can vary substantially. At one end of the spectrum (full-fledged own revenues) subnational governments have full legal control over both the definition of taxable bases and the rate structure of the revenue source. Of course, they may still see their effective room for maneuver in this respect constrained by economic factors, such as a high degree of mobility of the relevant tax base (e.g., income from capital). At the other end, subnational governments may be simply allotted shares of taxes whose bases and rates are defined by the central government, which typically also administers these taxes. In this case, subnational governments have no control over these sources of revenue and, depending on the discretionality in the revenue-sharing arrangement, may not even be able to predict their yield with any confidence.



In between these two extremes are arrangements (like surcharges on central government taxes) which involve little or no subnational control over the specification of the tax base, but a (typically bounded) degree of control over the tax rate(s).

**TABLE V.2**  
**A TAXONOMY OF SUBNATIONAL REVENUE ASSIGNMENTS**

	Revenue assignments		
	Own taxes	Tax surcharges	Tax sharing
Subnational fiscal autonomy over			
Tax base	Yes	No	No
Tax rate	Yes	Yes	No
Administration	Yes	Possibly	No
Duplication/Cost of Compliance and Administration	Highest	Lower	Lower

Source: Adapted from McLure (2005) and Bordignon and Ambrosiano (2006).

Empirical evidence suggests that **own revenues tend to represent a relatively small share of subnational governments' resources** in most countries. Data for selected OECD countries indicate that, on average, own taxes account for less than 20 percent of subnational governments' revenues, albeit with a large variance (the share being as high as 76 percent in Canada, where provinces enjoy significant fiscal autonomy, to as low as 5 percent in Mexico, despite its federal structure) (Table V.3)<sup>82</sup>. Also, a study by Joumard and Kongsrud (2003) found that in Norway, Austria, and Germany, where overall general government tax ratios are around or above 40 percent of GDP, own revenues only account for 0.3, 0.8, and 1.4 percent of GDP, respectively.

A number of factors have been identified in the literature as responsible for such a generally **limited reliance by subnational governments on own taxes**:

- labor and capital have traditionally been more mobile across subnational jurisdictions than across national frontiers, thereby constraining subnational governments' ability to tax them (in particular profits and interest income);
- especially in countries with substantial regional dispersion in income levels, tax bases tend to be also unequally distributed across the national territory, necessitating redistributive transfers through the central government budget;
- many subnational jurisdictions lack resources and capacity to administer the more complex but more productive taxes, such as income taxes and the VAT, which require well-developed audit and enforcement mechanisms; and finally
- local governments may face disincentives to exploit their own revenue-raising potential and build up their administrative capacities, given the political cost of own taxes and the resources required to administer them. This is particularly true in a system of intergovernmental fiscal arrangements characterized by large vertical imbalances and correspondingly large transfers (especially of a gap-filling nature) from the center, as is common in many countries.

<sup>82</sup> The share of own taxes is higher for the whole set of countries reported in OECD (2006); still, it accounts for less than 1/3 of subnational resources.

**TABLE V.3**  
**REVENUE STRUCTURE IN SELECTED SUBNATIONAL GOVERNMENTS, 2002**

	Own taxes	Tax surcharges	Tax sharing	Central transfers
Australia	41,1	-	34,4	24,6
Austria	3,7	-	43,5	47,4
Belgium	57,1	-	32,4	10,5
Canada	76,0	-	5,5	18,5
Germany	-	1,9	68,2	21,0
Mexico	5,0	-	-	95,0
Finland	-	60,4	6,7	32,8
France	39,3	9,6	-	45,5
Greece	-	11,6	6,3	82,1
Italy	-	28,4	19,9	51,6
Spain	32,6	0,1	23,3	44,0
Sweden	-	74,0	-	26,0
Unweighted average	19,4	16,9	20,6	43,1

Source: Author's calculations, based on OECD (2006).

Note: Data reported only for the first level below the central tier; refers to states in the first block of federal countries (provinces in Canada); and regions in Italy and Spain. In some cases, shares do not sum up to 100 percent, due to "other taxes" (not otherwise classified).

However, a case can be made for **greater reliance on own taxation by subnational governments**. As emphasized by proponents of so-called market preserving federalism, access to subnational tax handles creates incentives for subnational governments to spend better, as higher growth in the relevant jurisdiction will eventually translate into higher revenue, and hence more resources for politicians to spend (Careaga and Weingast, 2003, and Weingast, 2004). Also, access to own revenue at the margin helps contain expectations of bailouts from the center, should subnational governments run into financial difficulties (Bordignon and Turati, 2005). Finally, in a globalized world, where tax bases can be eroded by trade liberalization, or competed away by financial integration, increased reliance on less mobile tax bases is often crucial to sustain tax ratios that can finance the desired level of government expenditure.

What are in practice the **types of taxes more appropriate for assignment to subnational governments** and how significant is their revenue-raising potential likely to be? From a normative stand-point, the benefit principle of taxation would argue for reliance mainly on property taxes, and user fees. However, as highlighted in Box V.3, property taxes are largely confined to the lowest levels of government (typically, municipalities) and, partly in reflection of significant administration costs, remain a modest source of revenue in most countries.

## BOX V.3

## PROPERTY TAXES AS A SUBNATIONAL REVENUE HANDLE

Property taxation has historically been the main source of subnational revenue. It is levied locally in practically all advanced countries (centrally only in Sweden). The share of property taxes in subnational revenue, however, varies considerably; for local governments, this share ranges from as low as 5 percent in Turkey and 7 percent in Norway, to 90 percent in New Zealand and 100 percent in Australia, Ireland, and United Kingdom. As share of GDP, property taxes account for about 1 percent in unitary countries and 2 percent in federal countries. While property taxes are therefore insufficient to fund subnational spending needs, there is a general perception that they remain largely underexploited (OECD, 2004).

Property taxes offer a number of desirable features. Their base is immobile, so taxpayers cannot shift location to avoid taxation; they reflect the benefit principle, as local services (e.g., roads, transportation, parks) confer benefits on properties and increase property values; and allow subnational governments to determine the desired level of services and raise revenue to pay for that level. However, determining the value of property tax bases is difficult, thus complicating their administration, especially in cases where market valuation is hindered by limited real estate market activity, and/or limited information on market transactions. Hence determining the tax base is often a matter of judgment.

Constraints also arise from the lack of proper land and housing registers, or outdated cadastres. Property taxes are also very visible –while it may be desirable to increase them to strengthen subnational revenue handles, it may be politically difficult to do so.

The revenue potential of property taxation depends on broadening their tax base (to include both land and buildings); minimizing exemptions; and trying to align assessment to market value. Revaluations should be done regularly (every year if possible but no more than every 5 years), to preserve the tax buoyancy.

Source: Author.

As concerns regional governments, a number of papers have argued in recent years for their **sharing in the taxation of bases traditionally assigned to the central government**. Specifically, there is now a growing literature calling for dual (national and state-level) VATs (see e.g., Bird, 1999, Keen, 2000), and some countries have indeed introduced state-level general sales taxes, VATs or quasi-VATs (such as the Italian IRAP). There is also growing experience with surcharges by regional and even some local governments on national personal and corporate income taxes. Such forms of “piggybacking” combine the advantage of a degree of control by subnational governments of the tax rate (with related accountability) with avoiding the compliance costs for tax payers stemming from different tax legislations in different regions of a country<sup>83</sup>. An added advantage of piggybacking is that it minimizes administration costs for subnational governments, as the collection and enforcement of surcharges on national taxes can in principle be “delegated upward” to the central government, possibly on a fee basis.

As regards **revenue from natural resources**, resource-rich regions typically exercise strong pressures to keep a large share of such revenue, often citing environmental damage from exploitation of the resources. However, revenue retention by the region of origin may result in horizontal imbalances that are difficult to redress. In addition, strong reliance by subnational governments on such sources of revenue exposes them to a high degree of volatility, which they are less capable of withstanding than the central government.

It needs to be emphasized, however, that, while there is clearly scope for **additional efficient revenue mobilization by subnational governments**, a number of conditions will need to be met for such “space” to be exploited.

- First, the **design of intergovernmental transfers** should create the right incentives: transfers from the center should both take into account relative revenue-raising capacities of different subnational governments, and not discourage their tax efforts.

<sup>83</sup> A notable example of such costs, as well as the distortions created by competition through the granting of tax incentives, is provided by the state-level VATs (ICMS) in Brazil.

- Second, but equally important, **incentives should be preserved through the enforcement of hard budget constraints** on subnational governments, i.e., avoidance of gap-filling transfers or other forms of bailouts by the central government; and either effectively enforced borrowing controls or, in appropriate circumstances, effective market discipline, including no access to privileged channels of financing.
- Third, there may be a need for either **coordination among subnational governments or a degree of central government intervention** (for example, in the form of a floor on rates of subnational taxes or surcharges) to avoid predatory tax competition (the proverbial “race to the bottom”).
- Finally, the choice of subnational tax handles needs to reflect a realistic assessment of the capacity of these governments to administer the taxes. This is likely to lead to significant variance in subnational taxes across a national territory. There is also a clear role for the central government to support (with technical and, as appropriate, financial assistance) the strengthening and modernization of regional and local tax administrations, in particular the setting up and periodic updating of well functioning property cadastres.

#### 4. Creating fiscal space through improved prioritization and efficiency of subnational spending

An important strand of the fiscal federalism literature (Musgrave, 1961 and Oates, 1993), among others) has traditionally emphasized the **potential efficiency gains from decentralization**. In principle, efficiency is maximized when spending responsibilities are assigned to the smallest jurisdiction encompassing the beneficiaries of such spending. This is the case because such beneficiaries should be better able to react to an inappropriate level or composition of that jurisdiction’s spending, or to its inefficiency, by voting out the relevant government, or by moving to other jurisdictions (“voting with the feet”). This benign view of the impact of decentralization on spending efficiency has been increasingly challenged in more recent literature (see e.g., Tanzi, 2002, and Ahmad, Brosio, and Tanzi, 2007), which has pointed to both theoretical arguments and empirical evidence against it.

On the theoretical level, a number of factors can impact negatively on the welfare gains from decentralization:

- substantial **scope for capture** of spending decisions by local elites or powerful interest groups;
- **lack of transparency of subnational government operations**, due to their poor public financial management (PFM) systems, with consequently limited accountability of local policy-makers to their electorate;
- **excessive fragmentation of local jurisdictions**, which precludes their reaping the benefits of economies of scale in certain types of spending (e.g., infrastructure);
- **lack of clarity in the assignment of spending responsibilities** across levels of government; this can lead to wasteful duplication of functions, or lack of effective responsibility for some government functions. Box V.4 provides some examples in this respect.
- excessive **interference by the central government in local spending decisions** which tends to sap local accountability and initiative; when this is effected via earmarked grants,

it also creates budget rigidities that may prevent the efficient allocation of resources; and last but certainly not least,

- a system of intergovernmental transfers that does not adequately compensate for differences in revenue-raising capacities and spending needs (related to, for instance, geographic or demographic factors) among subnational jurisdictions, resulting in insufficient resources for some of these jurisdictions to carry out their assigned spending responsibilities at an average level of efficiency.

#### BOX V.4

##### DIFFICULTIES WITH OVERLAPPING EXPENDITURE ASSIGNMENTS

In **Bolivia**, municipalities are responsible for building infrastructure and operations and maintenance spending for education and health care; the departments hire the teachers; and the center pays for them. Municipalities certify hours worked. Virtually no level is aware of the total spending on education or the actual number of teachers or health care personnel. There is no effective responsibility for two of the most important spending functions of government.

Under the **Nigerian** constitution, primary education was assigned to the districts, the lowest tier of government. However, most lacked the capacity to manage this function, and the financing from transfers was not effectively used for this purpose, resulting in teachers not being paid. There was then an effective "recentralization" of this function, with the hiring and management of teachers by the middle-tier or states, and the financing through a special purpose or earmarked grant from the center. A similar pattern holds with respect to health care. Recent Nigerian survey evidence shows that there is limited local accountability for health care –given nonpayment of salaries of health workers that cannot be explained by a lack of resources (Khemani, 1998).

Additional costs could result from the implementation of the new fiscal federalism arrangements provided for under the revised **Italian constitution**. The 2001 reform would increase subnational governments' (regions and municipalities) spending, in principle to be matched by central government's savings. As additional spending responsibilities are to be devolved from the center, there would be no additional expenditure at the general government level. Existing estimates put the additional spending for subnational governments within a range that could be as high as € 91 billion (about 6 percent of 2007 GDP), on a gross basis. However, this could result in additional net costs at the general government level, emerging from duplication of functions; overall higher wages, as the wage structure and career progression are generally higher/faster at the regional than the central level; and additional new staff, to the extent that economies of scale are undermined (ISAE, 2004). Past experience with decentralization also suggests that the transfer of functions can imply higher overall spending. When functions were transferred from the center to the regions during the 1990s, the latter created strong pressures to augment resource envelopes relative to what they viewed as insufficient spending margins; at the same time, there was a need to placate central agencies that would have lost from the transfer of functions. This resulted in additional funds from the national budget and additional net spending (Giarda, 2003).

Source: Author.

While all these factors can play an important role in hindering efficient and well-prioritized subnational spending, it may be worth emphasizing here the **importance of the quality of public financial management (PFM) systems** in this respect. Indeed, the PFM requirements to promote sound prioritization and cost-effectiveness of public expenditure are quite demanding, and often significantly exceed subnational governments' capacity and resources. Ideally, not only well-structured, transparent, and systematically enforced processes for budget preparation, execution, accounting, reporting, and auditing have to be in place, but also a meaningful program classification for the budget; reliable and timely cost accounting for such programs; and appropriate indicators of their effectiveness need to be developed, to facilitate an assessment of the efficiency of the programs (including through a benchmarking of performances), and a reflection of such assessments in the subsequent funding of the programs. While there are examples, in both industrial and developing countries, of some states (and even some municipalities) being leaders in budgetary reform processes, in most cases subnational governments' PFM systems tend to be less transparent, well-structured, and well-documented than those of central governments.

While many countries around the world are experimenting with different forms of decentralization, there is yet **no conclusive evidence on what kind of institutional reforms actually lead to improvements in service delivery**. In India, for example, state governments have

the primary responsibility for all service delivery, and voters appear to hold them, rather than the national government, more accountable for their delivery. There has been a recent move towards increasing the role of village level governments in India, but states are given considerable discretion in choosing the structure and functions of local institutions within their boundaries. Indonesia and Bolivia, on the other hand, have chosen more “direct” decentralization, with the outright transfer of responsibility and authority to district and municipal levels of government, with a smaller role for the provinces. While different, these experiences seem to suggest the value of **giving voters the power to elect representatives** to different tiers of government, which may help increase public awareness and scrutiny over government activities. This is also in line with current development policy thinking that **community participation is key to the successful delivery of essential public services** to the poor –with possible links between community participation and fiscal decentralization. Huther and Shah (1998) provide empirical evidence from a sample of 80 countries that citizen participation and public sector accountability are positively correlated with decentralized systems of government.

In the light of the considerations above, it is not surprising that the (relatively few) available empirical studies of the impact of decentralization on the transparency, quality, and efficiency of subnational spending provide a mixed evidence. For example, while a study by Shah (2007) finds that decentralization tends to reduce corruption and waste in public spending, other studies (e.g., Ahmad, Brosio, and Tanzi, 2007) find its impact on the efficiency of service delivery to vary significantly across countries. The scarcity of available quantitative information on the efficiency of subnational funding programs makes it difficult to assess empirically the relative role and importance of the various factors listed above in affecting the efficiency of subnational spending. This remains, however, an area deserving significant further exploration, given its importance in assessing the scope for increasing fiscal space through decentralization.

**One last issue (and question).** The discussion above suggests that the conditions for fiscal decentralization to create fiscal space –namely, to assign and manage taxing and spending powers across and within levels of government so as to create efficiency gains– are quite demanding and possibly difficult to realize, especially in countries with limited capacity. A similar issue is whether **increased participation of the private sector** in the provision of services, in particular at the subnational level, can create fiscal space. For example, if the central government can assign responsibility for spending programs to lower levels of government as they can tailor these to local preferences and needs, could these in turn bring in the private sector, which could contribute expertise, management, and innovation, for example through Public-Private Partnerships (PPPs)? As decentralization does not create fiscal space by allocating spending responsibilities down various government levels, similarly shifting spending from the public to the private sector does not necessarily result in additional fiscal space, as significant fiscal risks may result from ill-designed and badly managed PPPs –and subnational governments are more likely to be less prepared to manage these risks than the central government (Box V.5).

## BOX V.5

## CAN PPPs AT THE SUBNATIONAL LEVEL INCREASE SPENDING EFFICIENCY?

PPPs are arrangements where the government relies on the private sector for the supply of infrastructure assets and related provision of services. While definitions of PPPs vary, three key features characterize PPPs: (i) private execution and financing of public investment; (ii) an emphasis on both investment and service provision by the private sector; and (iii) risk transfer from the government to the private sector (IMF, 2007).

Private sector's management and innovation may deliver increased efficiency, better quality, and lower cost services than traditional public provision. However, efficiency gains secured via PPPs need to be large enough to cover (i) the typically higher costs of private sector borrowing; and (ii) the significantly higher transaction costs of PPPs –both types of costs are passed on to the government in PPP contracts.<sup>1</sup>

**Experience around the world suggests that PPPs may also entail significant fiscal risks.** Initially promising projects often result into lengthy and costly renegotiations and litigation; and in expensive bail-out operations from the government. While PPPs may initially allow a government to avoid or defer spending, over time large government liabilities may arise. This is particularly so when investment projects are of poor quality, the legal and fiscal institutional frameworks for PPPs are weak, and accounting and reporting systems do not transparently disclose the fiscal implications of PPPs.

**As the decentralization trend intensifies, so does the trend toward greater reliance on PPPs.** For example, rapidly expanding infrastructure needs have led many city governments around the world to turn to the private sector to improve the quality and reliability of (often inefficient) public services, with the added advantage that the related costs could be shifted off-budget. While some municipalities and cities have managed to reap the benefits of private sector's involvement (in addition to the case of Bogotá, illustrated in Box V.2, the case of London comes to mind), the experience has been disappointing in developing countries; a recent World Bank study (Clarke Annez, 2006) shows that the private sector is actually reluctant to get involved; and where it does, governments should put in place safeguards against future obligations arising from PPPs. As the author concludes, "private finance cannot be a substitute for sound public finance in developing countries' cities."

**Effective management of fiscal risks from PPPs is a demanding task.** It requires governments to focus on strengthening the overall framework for public investment planning, developing the legal and institutional framework to handle PPPs, and implementing transparent accounting and reporting. To the extent that subnational governments may have weak PFM systems, it is unlikely that PPPs may generate genuine fiscal space for them, and ultimately, for the general government as a whole.

Source: Author.

<sup>1</sup> The complexity of PPP contracts, relative to traditional public procurement, leads to higher transaction costs. Recent EIB studies have shown that total transaction (bidding and negotiation) costs during the procurement stage average 10 percent of a project's capital value. See Gerti Dudkin and Timo Vällä, "Transaction Costs in Public-Private Partnerships: A First Look at the Evidence," Economic and Financial Report 2005/03, European Investment Bank (available at: <http://www.eib.org/Attachments/efs/efr05n03.pdf>).

## 5. A few conclusions

This paper has attempted to draw some inferences, from both the copious fiscal federalism literature, and country experiences, regarding the scope for increasing fiscal space through decentralization. These can be briefly summarized as follows:

- **First, the main case for decentralization often rests on political economy, rather than economic, considerations.** While a significant strand of the literature highlights the potential welfare gains from decentralization, other contributions correctly highlight that conditions for efficiency-enhancing decentralization are indeed demanding.
- **Second, from a macroeconomic stand-point, what matters for both financial stability and fiscal sustainability, are the operations of the general government.** From this perspective, decentralization per se does not create fiscal space; nor does it increase governments' capacity to borrow in a macro-economically sound and sustainable way.
- **Third, a poorly designed system of intergovernmental fiscal relations can reduce, rather than increase, fiscal space over the short to medium term.** Specifically, a system that:

- discourages own revenue mobilization efforts by subnational government (e.g., through gap-filling transfers);
  - leads to duplication of spending programs, through an unclear or overlapping assignment of spending responsibilities;
  - inappropriately sequences the devolution of spending responsibilities and resources; and
  - does not effectively enforce “hard budget constraints” on subnational governments (e.g., through implicit or explicit bailouts, or by allowing privileged access to financing); can lead to increased macroeconomic instability, undermine long-term fiscal sustainability, and reduce the efficiency and quality of overall government spending.
- Fourth, a number of economic and administrative factors (discussed in Section 3 above) constrain the scope for effective revenue mobilization at the subnational government level. On the positive side, there is scope for better exploiting less mobile tax bases (e.g., property) and for some piggy-backing by local governments on central government taxes. The central government can play an enabling role in this respect, by taking steps to avoid a race to the bottom; by helping subnational governments strengthen their capacity to administer own revenues; and by ensuring that the design of intergovernmental transfers does not discourage subnational tax effort.
  - Finally, the paper has also highlighted (in Section 4 above) the range of factors that can adversely affect spending efficiency at the subnational level. The state of subnational PFM systems is especially relevant in this respect. Addressing these factors in a realistic and time-consistent way is key to ensuring that decentralization helps over time in the creation of additional fiscal space.



## **VI. Fiscal Decentralization and Macroeconomic Governance**

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***Anwar Shah***

### **1. Abstract**

The purpose of this paper is to address a central question in fiscal federalism - whether or not fiscal decentralization implies serious risks for fiscal discipline and macroeconomic management for the nation as a whole. This paper addresses this important issue by drawing upon the existing evidence regarding macro management and fiscal institutions in federal and unitary countries. This is supplemented by cross country regression analysis plus the analysis of two case studies: the Brazilian federation and the unitary regime in China. The main conclusion of the paper is that decentralized fiscal systems offer a greater potential for improved macroeconomic governance than centralized fiscal regimes. This is because the challenges posed by fiscal decentralization are recognized and they shape the design of counter-veiling institutions in federal countries to overcome adverse incentives associated with incomplete contracts or the “common property” resource management problems or with rent seeking behaviors.

## 2. Introduction

A large and growing number of countries around the globe are re-examining the roles of various orders of government and their partnerships with the private sector and the civil society with a view to creating governments that work and serve their people (see Shah, 2004 for motivations for a change). This rethinking has led to a resurgence of interest in fiscal federalism principles and practices as federal systems are seen to provide safeguards both against the threat of centralized exploitation as well as decentralized opportunistic behavior while bringing decision making closer to the people. In fact federalism represents either “coming together” or “holding together” of constituent geographic units to take advantage of the greatness and littleness of nations as in a flat (globalized) world nation states are observed to be too large to address small things in life and too small to address large tasks. But federal fiscal systems to accommodate “coming together” or “holding together” according to some influential writers pose a threat to macro-stability. They argue that decentralized governance structure is incompatible with prudent fiscal management (see e.g. Prud’homme 1995, Tanzi, 1995). This paper investigates the conceptual and empirical bases of these arguments. More specifically, the paper addresses the following questions:

- Are there greater risks of macroeconomic mismanagement and instability with decentralized fiscal systems (federal vs. unitary countries)?
- What has been the experience to-date in macroeconomic management in federal vs. unitary countries? Or what has been the impact of decentralization on fiscal discipline and macro stability?

To address the above questions, the paper takes a simple institutional cum econometric analysis perspective. The institutional perspective uses as benchmark fiscal institutions in federal versus unitary countries. This is a useful perspective as the working of federal constitutions place a greater premium on vertical and horizontal coordination. It should nevertheless be recognized at the outset that the practice of fiscal federalism in various federal countries may lead to significant degree of centralization in decision making as in Australia, India and Mexico and as a corollary some unitary countries could in practice may be quite decentralized such as Colombia. Thus there can be no one to one mapping between federalism and decentralized decision making although as a group federal countries are more decentralized than unitary countries. The econometric perspective overcomes this deficiency by considering measures of the degree of fiscal decentralization but is weaker in capturing the institutional details. In view of these limitations of the individual approaches, the paper uses a combination of both the approaches to have a better understanding of the underpinnings of the relationship between fiscal decentralization and economic performance.

The strengths and weaknesses of fiscal and monetary policy institutions under alternate fiscal regimes are examined drawing upon neo-institutional economics perspectives on fiscal institutions (see von Hagen, 2002, 2005 and von Hagen, Hallet and Strauch, 2002). A neo-institutional economics perspective aims to reduce transactions costs for citizens (principals) in inducing compliance with their mandates by various orders of governments (agents). A fiscal system that creates countervailing institutions to limit the opportunistic behavior of various agents and empowers principals to take corrective action, is expected to result in superior fiscal outcomes. In the context of this paper, relevant question then is what type of fiscal system (centralized or decentralized) offers greater potential for contract enforcement or rules or restraints to discourage imprudent fiscal management. The paper undertakes a qualitative review of institutional arrangements for monetary and fiscal policy in federal and unitary countries. This is supplemented by two country case studies and a broader cross-country econometric analysis to examine fiscal outcomes under alternate fiscal systems. These results are used to draw some general lessons of public policy interest.

The paper concludes that, contrary to a common misconception, decentralized fiscal systems offer a greater potential for improved macroeconomic governance than centralized fiscal systems. While empirical evidence on these questions is quite weak, nevertheless it further supports the conclusion that fiscal decentralization is associated with improved fiscal and economic performance. This is to be expected as decentralized fiscal systems require greater clarity in the roles of various players (centers of decision making), transparency in the rules and greater care in design of institutions that govern their interactions to ensure a fair play and limiting opportunities for rent seeking. The rest of the paper is organized as follows. Section 3 discusses the institutional environment for macroeconomic management. This is elaborated separately for monetary and fiscal policies and in each subsection literature review is supplemented by econometric analysis and Brazil and China country case studies. A final section draws some general conclusions.

### **3. Institutional Environment for Macroeconomic Management**

Using Musgrave's trilogy of public functions namely allocation, redistribution and stabilization, the fiscal federalism literature has traditionally reached a broad consensus that while the former function can be assigned to lower levels of government, the latter two functions are more appropriate for assignment to the national government. Thus macroeconomic management- especially stabilization policy- was seen as clearly a central function (see e.g. Musgrave, 1983: 516; Oates, 1972). The stabilization function was considered inappropriate for subnational assignment as (a) raising debt at the local level would entail higher regional costs but benefits for such stabilization would spill beyond regional borders and as a result too little stabilization would be provided; (b) monetization of local debt will create inflationary pressures and pose a threat for price stability; (c) currency stability requires that both monetary and fiscal policy functions be carried out by the center alone; and (d) cyclical shocks are usually national in scope (symmetric across all regions) and therefore require a national response. The above views have been challenged by several writers (see e.g. Dafflon, 1977; Sheikh and Winer, 1977; Gramlich, 1987; Walsh, 1992; Biehl, 1994; Shah, 1994; Mihaljek, 1995; Huther and Shah, 1996) on theoretical and empirical grounds yet they continue to command considerable following. An implication that is often drawn is that decentralization of the public sector especially in developing countries poses significant risks for the "aggravation of macroeconomic problems" (Tanzi, 1996, p.305).

To form a perspective on this issue, we reflect in the following on the theoretical and empirical underpinnings of the institutional framework required for monetary and fiscal policies.

#### **3.1 Institutional Setting for Monetary Policy**

Monetary policy is concerned with control over the level and rate of change of nominal variables such as the price level, monetary aggregates, exchange rate and nominal GDP. The control over these nominal variables to provide for a stable macro environment is commonly agreed to be a central function and monetary policy is centralized in all nation states, federal and unitary alike. Nevertheless, there are occasional arguments to add a regional dimension to the design and implementation of monetary policies. For example Mundell (1968) argues that an optimal currency area may be smaller than the nation state in some federations such as Canada and USA and in such circumstances, the differential impact of exchange rate policies may be inconsistent with the constitutional requirement of fair treatment of regions. Further complications arise when the federal government raises debt domestically, but provincial governments borrow from abroad: This is the case in Canada as federal exchange rate policies affects provincial debt servicing. Similarly Buchanan (1997) argues against the establishment of a confederal central bank such as the European Union Central Bank as it negates the spirit of competitive federalism.

In a centralized monetary policy environment, Barro (1996) has cautioned that a stable macro environment may not be achievable without a strong commitment to price stability by the monetary authority. This is because if people anticipate growth in money supply to counteract a recession, the lack of such response will deepen recession. The credibility of a strong commitment to price stability can be established by consistently adhering to formal rules such as a fixed exchange rate or to monetary rules. Argentina's 1991 Convertibility Law establishing parity in the value of the peso in terms of the US dollar and Brazil's 1994 Real Plan helped achieve a measure of this level of credibility. Argentina's central bank strengthened credibility of this commitment by enduring a severe contraction in the monetary base during the period December 1994 to March 1995 as speculative reactions to the Mexican crisis resulted in a decline in its foreign exchange reserves. Alternately, guaranteeing independence from all levels of the government, for a central bank whose principal mission is price stability could establish the credibility of such a commitment (Barro, 1996, Shah, 1994, p.11). Barro considers the focus on price stability so vital that he regards an ideal central banker as one who is not necessarily a good macro economist but one whose commitment to price stability is unshakable. He said, "The ideal central banker should always appear somber in public, never tell any jokes, and complain continually about the dangers of inflation" (1996, p.58). Empirical studies show that the three most independent central banks (the National Bank of Switzerland-the Swiss Central Bank, Bundesbank of Germany, and the US Federal Reserve Board) over the period 1955 to 1988, had average inflation rates of 4.4 percent compared to 7.8 percent for the three least independent banks (New Zealand until 1989, Spain and Italy). The inflation rate in the former countries further showed lower volatility. The same studies also show that the degree of central bank independence is unrelated to the average rate of growth and average rate of unemployment. Thus Barro argues that a "more independent central bank appears to be all gain and no pain" (1996, p.57). The European Union has recognized this principle by establishing an independent European Central Bank. The critical question then is whether or not independence of the central bank is compromised under a decentralized fiscal system. One would expect, a priori, that the central bank would have greater stakes and independence under a decentralized system since such a system would require clarification of the rules under which a central bank operates, its functions and its relationships with various governments.

For example, when Brazil in 1988 introduced a decentralized federal constitution, it significantly enhanced the independence of the central bank (Shah, 1991, Bomfim and Shah, 1994). Yet, independence of the central bank in Brazil remains relatively weak compared to other federal countries (see Huther and Shah, 1996). On the other hand, in centralized countries the role of the central bank is typically shaped and influenced by the Ministry of Finance. In one extreme case, the functions of the central bank of the UK (a unitary state), the Bank of England, are not defined by law but have developed over time by a tradition fostered by the UK Treasury. Only in May 1997, has the newly elected labor party government of Prime Minister Tony Blair assured the Bank of England a free hand in its pursuit of price stability. Such independence may still on occasions be compromised as the Chancellor of the Exchequer still retains a presence on the board of directors as a voting member. New Zealand and France (unitary states) have lately recognized the importance of central bank independence for price stability and have granted independence to their central banks. The 1989 Reserve Bank Act of New Zealand mandates price stability as the only function of the central bank and expressly prohibits the government from involvement in monetary policy. The People's Bank of China, on the other hand, does not enjoy such independence and often works as a development bank or as an agency for central government "policy lending" and in the process undermines its role of ensuring price stability (see World Bank, 1995 and Ma, 1995). For monetary policy, it has only the authority to implement the policies authorized by the State Council. The Law of the People's Bank of China,

1995, article 7 states that its role is simply to “implement monetary policies under the leadership of the State Council” (see Chung and Tongzon, 2004).

For a systematic examination of this question, Huther and Shah (1996) relate the evidence presented in Cukierman, Webb and Neyapti (1992) on central bank independence for 80 countries to indices of fiscal decentralization for the same countries. Cukierman et al. assess independence of a central bank based upon an examination of 16 statutory aspects of central bank operations including the terms of office for the chief executive officer, the formal structure of policy formulation, the bank’s objectives as stated in its charter, and limitations on lending to the government. Huther and Shah (1996) find a weak but positive association between fiscal decentralization and central bank independence confirming our a priori judgment that central bank independence is strengthened under decentralized systems. Table VI.1, equation 1, using a cross section of 40 countries for the period 1995-2000 provides econometric analysis of the impact of expenditure decentralization on central bank independence. The results confirm positive impact of expenditure decentralization on central bank independence.

Increases in the monetary base caused by the Central Bank’s bailout of failing state and non-state Banks represent occasionally an important source of monetary instability and a significant obstacle to macro economic management. In Pakistan, a centralized federation, both the central and provincial governments have, in the past, raided nationalized banks. In Brazil, a decentralized federation, state banks in the past made loans to their own governments without due regard for their profitability and risks causing the so called \$100 billion state debt crisis in 1995. Brazil, nevertheless later dealt with this issue head on with successful privatization of state-owned banks in late 1990s and through prohibition of government borrowing from state banks or from the central bank (Levy, 2005). Thus a central bank role in ensuring arms length transactions between governments and the banking sector would enhance monetary stability regardless of the degree of decentralization of the fiscal system.

Available empirical evidence suggests that such arms length transactions are more difficult to achieve in countries with a centralized structure of governance than under a decentralized structure with a larger set of players. This is because a decentralized structure requires greater clarity in the roles of various public players, including the central bank. No wonder one finds that the four central banks most widely acknowledged to be independent (Swiss Central Bank, Bundesbank of Germany, Central Bank of Austria and the United States Federal Reserve Board) have all been the products of highly decentralized federal fiscal structures. It is interesting to note that the independence of the Bundesbank is not assured by the German Constitution. The Bundesbank Law providing such independence also stipulates that the central bank has an obligation to support the economic policy of the federal government. In practice, the Bundesbank has primarily sought to establish its independence by focusing on price stability issues. This was demonstrated in the 1990s by its decision to raise interest rates to finance German unification in spite of the adverse impacts on federal debt obligations (see also Biehl, 1994).

The Swiss Federal Constitution (article 39) assigns monetary policy to the federal government. The federal government has, however, delegated the conduct of monetary policy to the Swiss National Bank, a private limited company regulated by a special law. The National Bank Act of 1953 has granted independence in the conduct of monetary policy to the Swiss National Bank although the bank is required to conduct its policy in the general interest of the country. It is interesting to note that the Swiss National Bank allocates a portion of its profits to cantons to infuse a sense of regional ownership and participation in the conduct of monetary policy (Gygi, 1991).

This paper also examined empirically some additional questions on the impact of fiscal decentralization on monetary stability. These included impact of fiscal decentralization; on growth of money supply; on control of inflation; and inflation and macroeconomic balances.

### **Monetary Management in Brazil: a decade of successful reforms**

Brazil had a long history of state ownership of the banking system and imprudent borrowing by governments from their own banks and subsequent bailouts. This tradition undermined fiscal discipline and macro-stability. Of lately the federal system has been able to come to grips with these issues. To this end, Brazil has given substantial independence to the Central Bank of Brazil and also adopted a variety of institutions to promote arms-length transactions among governments and the financial sector institutions. In August 1996 the federal government launched the Program to Reduce State Involvement with Banking Activities (PROES) that offered state governments support in financing the costs of preparing state banks for privatization, liquidation, or restructuring of state banks, some of which were converted to development agencies; as well as the voluntary alternative to delegate the control of the overall process of reform to the federal government (Beck, Crivelli and Summerhill, 2003). Government efforts have successfully led to a reduction the number of state-owned banks, among some of the ones privatized are former state banks of: Rio de Janeiro (BANERJ) in June 1997; Minas Gerais (BEMGE) in September 1998; Pernambuco (BANDEPE) in November 1998; Bahia (BANEB) June 1999; Paraná (BANESTADO) October 2000; São Paulo (BANESPA) November 2000; Paraíba (PARAIBAN) November 2001; Goiás (BEG) in December 2001; and Amazonas (BEA) in January 2002.

More recently, the Law of Fiscal Responsibility enacted in 2000 (LRF, 2000) prohibits government borrowing from own banks or the central bank. It requires that all new government borrowing receive the technical approval of the Central Bank and the approval of the Senate. Borrowing operations are prohibited all together during a period of 180-days before the end of incumbents' government mandate (Afonso and de Mello, 2002). For capital markets, the LRF declares that financing operations in violation of debt ceilings would not be legally valid and amounts borrowed should be repaid fully without interest. Unpaid interests due nullification constitute a loss to the lender. Overall Brazil has achieved monetary discipline since 1997 and sustained price stability since 1995.

### **Monetary Management in China: Still Muddling Through**

China is a unitary country and this unitary character is strongly reinforced through one party system. China until the early 1980s had an unsophisticated banking system comprised of the People's Bank of China (PBC), along with a few specialized banks such as the People's Construction Bank - an arm of the Ministry of Finance. The central budget and the banking system provided the working capital needed by enterprises and cash used principally to cover labor costs and purchases of agricultural products. The role of the banking system was limited, since most investments in fixed assets in enterprises were financed by direct transfers or grants from the government budget. In 1983, in a major reform, direct grants were replaced with interest-bearing loans to production enterprises. Consequently, the banking system gradually became the primary channel through which investments were financed and the central authority exercised macroeconomic control. In 1984, the PBC was transformed into the Central Bank of China under the State Council and its commercial banking operations were transferred to the Industrial and Commercial Bank of China. A network of provincial branches came to serve as the relays for the central bank's monetary operations. At the same time, other specialized banks and non-bank financial institutions and numerous local branches also emerged. The banks and the central bank established municipal, county and sometimes township level branches. The pressure on the central bank to lend originated in investment demand from state owned enterprises (SOEs).

These developments have made possible a decentralization of enterprise financing, but they have also created a wider financial arena for the scramble after resources and have greatly complicated the management of monetary policy from the center. Under the de-concentrated system, provincial and local authorities have substantial powers in investment decision-making and exert great influence on local bank branches' credit expansion. Although provinces are given certain credit ceilings at the beginning of the year, the central bank is often forced to revise the annual credit plans under pressure from localities. Local branches of the central bank were given discretionary authority over 30 percent of central bank's annual lending to the financial sector. Provincial and local governments used this discretionary authority of central bank branches to their advantage by borrowing at will thereby endangering price stability. According to Qian and Wu (2000), 70% of the central bank loans to state banks were channeled through central banks regional branches.

Consequently, two-digit inflation occurred in 1988 and 1989 and was followed by a credit squeeze. Monetary (inflation) cycles appeared to be more frequent than during the pre-reform era and caused significant resource waste. As 1992's credit ceilings were again exceeded by a surprisingly high margin, for instance two-digit inflation reoccurred in 1993, 94, and 95. Given these effects some studies have identified monetary de-concentration during this period as a mistake (Qian, 2000)<sup>84</sup>. As a response the "Central Bank Law" of 1995 re-centralized monetary policy by reassigning supervisory power of central Bank regional branches uniquely to Central Bank Headquarters. The Chinese monetary authorities have taken steps to promote arms length transactions in the banking system albeit with limited success. This was done by promoting arms length transactions in the government owned banking sector through (a) reducing provincial government influence on the PBC's regional branches. The PBC was reorganized into 9 regions as opposed to earlier configuration of 31 provincial jurisdictions; (b) limiting sub-national influences on state-owned bank. This was met with little success as the SOE's borrowing from these banks could not be restrained and non-performing portfolio of these bank grew in size; (c) interest rate liberalization to bring market discipline.

These above policies have not been very successful. This is because while state commercial banks are not under the control of local governments and have the authority to decide how to allocate their loans, yet state banks receive strong pressures from the central government either to directly fund SOEs that could not cover wage payments (Cull and Xu, 2003) or to purchase bonds issued by policy banks (Yusuf, 1997). State Banks are willing to comply with these demands on the expectation of central government bailout in case of default.

In this vein, Cull and Xu (2003) present empirical evidence that the link between bank loans and profitability weakened in the 90s, while Shirai (2001) finds empirically that commercial banks investments in government bonds are associated with lower levels of profitability. Results from both of the aforementioned studies buttress the notion that Chinese reforms have not been successful in promoting arms-length transactions in the banking system, which is riddled with lending operations of a bailout-type nature. The central government government's use of the banking system to finance sub-national governments and SOEs had deleterious effects on price stability governance of the financial sector.

### **Monetary policy and fiscal decentralization – some conclusions**

Empirical evidence presented in this paper and elsewhere supports the view that an independent central bank with singular focus on price stability, is essential for keeping the inflation in check, both in centralized and decentralized fiscal systems. The evidence on the practice confirms that

<sup>84</sup> According to Ma (1995), due to current monetary and fiscal institutions local government incentives are not aligned with those of the central level, significant decentralization reforms in 1989, and 1993 were immediately followed by inflation forcing the central government back to centralization.

such independence is more likely granted under decentralized fiscal systems in view of the presence of multiple orders of government with diverse and conflicting interests. The politics of federalism dictates such an independence. There are no such political imperatives in a centralized and unitary fiscal system unless there is an unstable coalition regime in power. Thus while the monetary policy issues are mainly governed by central bank behavior, the central bank governance is influenced by the fiscal constitution of the country. Decentralized fiscal constitutions appear to exert positive influences in this regard.

## 4. Institutional Setting for Fiscal Policy

In a unitary country, the central government assumes exclusive responsibility for fiscal policy. In federal countries, fiscal policy becomes a responsibility shared by all levels of government and the federal government in these countries uses its spending power i.e. powers of the purse (fiscal transfers) and moral suasion through joint meetings to induce a coordinated approach to fiscal policy. The allocation of responsibilities under a federal system also pays some attention to the conduct of stabilization policies. This is often done by assigning stable and cyclically less sensitive revenue sources and expenditure responsibilities to sub-national governments. Such an assignment attempts to insulate local governments from economic cycles and the national government assumes prominence in the conduct of a stabilization policy. In large federal countries such insulation is usually possible only for the lowest tier of government as the intermediate tier (states and provinces) shares responsibilities with the federal government in providing cyclically sensitive services such as social assistance. These intermediate tier governments are allowed access to cyclically sensitive revenue bases that act as built-in (automatic) stabilizers.

### 4.1 Fiscal Federalism as a bane for fiscal prudence

Several writers have argued, without empirical corroboration, that the financing of sub-national governments is likely to be a source of concern within open federal systems since sub-national governments may circumvent federal fiscal policy objectives. A few of these, (e.g. Tanzi, 1995) are also concerned with deficit creation and debt management policies of junior governments. A number of recent studies highlight institutional weaknesses in federal constitutions that may work against coordination of fiscal policies in a federal economy (Weingast 1995, Seabright 1996, Saiegh and Tommasi 1998, 1999, Iaryczower et al. 2000). These studies note that the institutional framework defining a federal governance structure is usually composed of a body of incomplete contracts<sup>85</sup>. In the presence of undefined or vague property rights over taxing and spending jurisdictions among layers of government, suboptimal policies would emerge as these would represent the outcome of the intergovernmental bargaining process as opposed to evolution from sound economic principles. They argue that the federal bargaining process is subject to the common property resource problem as well as the “norm of universalism” or “pork barrel politics”; both of which lead to over-grazing. For example, Jones, Sanguinetti and Tommasi (1998) assert that the problem of universalism manifests in Argentina at two levels –first, among provinces lobbying for federal resources, and second, among local governments for greater stakes of the each provincial pool of resources.

<sup>85</sup> Incompleteness of these contracts arises as unforeseen issues come to the policy agenda. Several of these issues could not possibly be contemplated at the original contract –constitution– or if covered, not fully addressed on it due to the ever increasing complexity in public management over time, or due to the prohibitively high costs that designing policy for a immensely large number of future possible scenarios would entail.



## 4.2 Fiscal Federalism as a boon to fiscal prudence

Available theoretical and empirical work does not provide support for the validity of these concerns. On the first point, at the theoretical level, Sheikh and Winer (1977) demonstrate that relatively extreme and unrealistic assumptions about discretionary non-cooperation by junior jurisdictions are needed to conclude that stabilization by the central authorities would not work at all simply because of a lack of cooperation. These untenable assumptions include regionally symmetric shocks, a closed economy, segmented capital markets, lack of supply side-effects of local fiscal policy, non-availability of built-in stabilizers in the tax-transfer systems of sub-national governments and in interregional trade, constraints on the use of federal spending power (such as conditional grants intended to influence subnational behavior), unconstrained and undisciplined local borrowing and extremely non-cooperative collusive behavior by subnational governments (see also Gramlich, 1987, Mundell, 1963, Spahn, 1997). The empirical simulations of Sheikh and Winer for Canada further suggest that failure of federal fiscal policy in most instances cannot be attributed to non-cooperative behavior by junior governments. Saknini, James and Sheikh (1996) further demonstrate that, in a decentralized federation having markedly differentiated sub-national economies with incomplete markets and non-traded goods, federal fiscal policy acts as insurance against region-specific risks and therefore decentralized fiscal structures do not compromise any of the goals sought under a centralized fiscal policy (see also CEPR, 1993).

Gramlich (1987) points out that in open economies, exposure to international competition would benefit some regions at the expense of others. The resulting asymmetric shocks, he argues, can be more effectively dealt with by regional stabilization policies in view of the better information and instruments that are available at the regional/local levels. An example supporting Gramlich's view would be the effect of oil price shocks on oil producing regions. For example, the Province of Alberta in Canada dealt with such a shock effectively by siphoning off 30 percent of oil revenues received during boom years to the Alberta Heritage Trust Fund, a "rainy day umbrella" or a stabilization fund. This fund was later used for stabilization purposes i.e. it was run down when the price of oil fell. The Colombia Oil Revenue Stabilization Fund follows the same tradition.

The above conclusion however, must be qualified by the fact that errant fiscal behavior by powerful members of a federation can have an important constraining influence on the conduct of federal macro policies. For example, achievement of the Bank of Canada's goal of price stability was made more difficult by the inflationary pressures arising from the Province of Ontario's increases in social spending during the boom years of late 1980's. Such difficulties stress the need for fiscal policy coordination under a decentralized federal system.

Inter-jurisdictional competition in decentralized fiscal systems by providing quality public services at lower tax prices may also be more efficient at controlling the "leviathan" as argued by Brennan and Buchanan (1980). Empirical evidence on this question is nevertheless inconclusive (see Oates, 1985, and Stein, 1999).

On the potential for fiscal mismanagement with decentralization as noted above by Tanzi, empirical evidence from a number of countries suggests that, while national/central/federal fiscal policies typically do not adhere to the European Union (EU) guidelines that deficits should not exceed 3% of GDP and debt should not exceed 60% of GDP, junior governments policies typically do. This is true both in decentralized federal countries such as Brazil and Canada and centralized federal countries such as Australia and India. Centralized unitary countries do even worse on the basis of these indicators. For example, Greece, Turkey and Portugal and a large number of developing countries, do not satisfy the EU guidelines. National governments also typically do not adhere to EU requirements that the central banks should not act as a lender of last resort.

The failure of collective action in forcing fiscal discipline at the national level arises from the “tragedy of commons” or “norm of universalism” or “pork barrel politics”. But these problems are not unique to federal system. Legislators, in both federal and unitary countries, in their attempt to avoid a deadlock trade votes and support each others projects by implicitly agreeing that “I’ll favor your best project if you favor mine” (Inman and Rubinfeld, 1991: 13). Such a behavior leads to overspending and higher debt overhang at the national level. It also leads to regionally differentiated bases for federal corporate income taxation and thereby loss of federal revenues through these tax expenditures. Such tax expenditures accentuate fiscal deficits at the national level. In the first 140 years of US history, the negative impact of “universalism” was kept to a minimum by two fiscal rules: the Constitution formally constrained federal spending power to narrowly defined areas and an informal rule was followed to the effect that the federal government could only borrow to fight recession or wars (Niskanen, 1992). The Great Depression and the New Deal led to an abandonment of these fiscal rules. Inman and Fitts (1990) provide empirical evidence supporting the working of “universalism” in post New Deal, USA. To overcome difficulties noted above with national fiscal policy, solutions proposed include: “gate-keeper” committees (Weingast and Marshall, 1988, Eichengreen, Hausman and von Hagen, 1996); imposing party discipline within legislatures (Cremer, 1986); constitutionally imposed or legislated fiscal rules (Niskanen, 1992, Poterba and von Hagen, 1999; Kennedy and Robins, 2001; Kopits, 2005); executive agenda setting (Ingberman and Yao, 1991); market discipline (Lane, 1993); and decentralizing when potential inefficiencies of national government democratic choice outweigh economic gains with centralization.

Observing a similar situation in Latin American countries prompted Eichengreen, Hausman and von Hagen (1996) to propose establishment of an independent “gate-keeper” in the form of a national fiscal council to periodically set maximum allowable increases in general government debt. While federal and unitary countries alike face these problems, yet federal countries have demonstrated greater adaptation in limiting the discretionary and unwelcome outcomes of political markets by trying on the solutions proposed above. It is also interesting to note that fiscal stabilization failed under a centralized structure in Brazil but achieved major successes in this arena later under a decentralized fiscal system.

Given that the potential exists for errant fiscal behavior of national and sub-national governments to complicate the conduct of fiscal policy, what institutional arrangements are necessary to safeguard against such an eventuality. As discussed below, mature federations place a great deal of emphasis on intergovernmental coordination through executive or legislative federalism as well as fiscal rules to achieve a synergy among policies at different levels. In unitary countries, on the other hand, the emphasis traditionally has been on use of centralization or direct central controls. These controls typically have failed to achieve a coordinated response due to intergovernmental gaming. Moreover, the national government completely escapes any scrutiny except when it seeks international help from external sources such as the IMF. But external help creates a moral hazard problem in that it creates bureaucratic incentives on both sides to ensure that such assistance is always in demand and utilized.

### **4.3 Fiscal Policy Coordination in Mature Federations**

In mature federations, fiscal policy coordination is exercised both through executive and legislative federalism as well as formal and informal fiscal rules. In recent years, legislated fiscal rules have come to command greater attention in both federal and unitary countries alike (see Table VI.1 and Box VI.1). These rules take the form of budgetary balance controls, debt restrictions, tax or expenditure controls and referendum for new taxing and spending initiatives. For example, the European Union in its goal of creating a monetary union through the provisions of the Maastricht

treaty established ceilings on national deficits and debts and supporting provisions that there should be no bailout of any government by member central banks or by the European Central Bank. The European Union is also prohibited from providing an unconditional guarantee in respect of the public debt of a member state. These provisions were subsequently strengthened by the Growth and Stability Pact provisions (legislated fiscal rules adopted by the European Parliament). Most mature federations also specify no bailout provisions in setting up central banks with the notable exception of Australia until 1992 and Brazil until 1996. In the presence of an explicit or even implicit bailout guarantee and preferential loans from the banking sector, printing of money by sub-national governments is possible thereby fueling inflation. European Union guidelines provide a useful framework for macro coordination in federal systems but such guidelines may not ensure macro stability as the guidelines may restrain smaller countries with little influence on macro stability such as Greece but may not restrain superpowers like France and Germany as demonstrated by recent history. Thus a proper enforcement of guidelines may require a fiscal coordinating council. Recent experiences with fiscal adjustment programs suggest that while legislated fiscal rules are neither necessary nor sufficient for successful fiscal adjustment, they can be of help in forging sustained political commitment to achieve better fiscal outcomes especially in countries with divisive political institutions or coalition regimes. For example, such rules can be helpful in sustaining political commitment to reform in countries with proportional representation (Brazil) or multi-party coalition governments (India) or in countries with separation of legislative and executive functions (USA, Brazil). Fiscal rules in such countries can help restrain pork-barrel politics and thereby improve fiscal discipline. Von Hagen (2005) based upon a review of EU experiences with fiscal rules concludes that budgetary institutions matter more than fiscal rules. The EU fiscal rules may have encouraged European countries to strengthen budgetary institutions which in turn had welcome effects on fiscal discipline and fiscal outcomes.

**TABLE VI.1**  
**FISCAL RULES AT A GLANCE**

Country/Province	Budgetary balance controls	Debt restrictions	Tax or expenditure controls and establishment of stabilization funds	Referendum for new taxes and expenditures	Penalties for non-compliance
EU-GSP	Yes	Yes			Yes but ineffective for large states
US States	48	41	30	3	Yes
Canada - Provinces	8	3	2	4	Yes
Germany	Yes				
New Zealand	Yes				
Sweden			Yes		
Switzerland	Yes	Yes	Yes	yes	
Brazil, 2000-	Yes	Yes	Yes		Yes including prison terms
Argentina, 2004-	Yes	Yes	Yes		
Argentina -provinces	17	17	17		
India, 2003-	Yes	Yes			
India - States	Yes	Yes			

Sources: Adapted from Finance Canada (2004).

Mature federations vary a great deal in terms of fiscal policy coordinating mechanisms. In the USA, there is no overall federal-state coordination of fiscal policy and there are no constitutional restraints on state borrowing but states' own constitutional provisions prohibit operating deficits. Intergovernmental coordination often comes through establishment of fiscal rules established through acts of Congress such as the Gramm-Rudman Act. Fiscal discipline primarily arises from three distinct incentives offered by the political and market cultures. First, the electorates are conservative and elect candidates with a commitment to keep public spending in

check. Second, pursuit of fiscal policies that are perceived as imprudent lower property values thereby lowering public revenues. Third, capital markets discipline governments that live beyond their means (see Inman and Rubinfeld, 1991).

In Canada, there are elaborate mechanisms for federal-provincial fiscal coordination. These take the form of intergovernmental conferences (periodic first ministers' and finance ministers/treasurers' conferences) and the Council of the Federation (an interprovincial consultative body). The majority of direct program expenditures in Canada are at the sub-national level but Ottawa (i.e. the Canadian federal government) retains flexibility and achieves fiscal harmonization through conditional transfers and tax collection agreements. In addition, Ottawa has established a well-knit system of institutional arrangements for intergovernmental consultation and coordination. But much of the discipline on public sector borrowing comes from the private banking sector monitoring deficits and debt at all levels of government. Overall financial markets and electorates impose a strong fiscal discipline at the sub-national level.

In Switzerland, societal conservatism, fiscal rules and intergovernmental relations play an important part in fiscal coordination. Borrowing by cantons and communes is restricted to capital projects that can be financed on a pay-as-you-go basis and requires popular referenda for approval. In addition, cantons and communes must balance current budgets including interest payments and debt amortization. Intergovernmental coordination is also fostered by "common budget directives" applicable to all levels of government. These embody the following general principles: (a) the growth rates of public expenditures should not exceed the expected growth of nominal GNP; (b) the budget deficit should not be higher than that of the previous year; (3) the number of civil servants should stay the same or increase only very slightly; (4) the volume of public sector building should remain constant and an inflation indexation clause should be avoided (Gygi, 1991:10).

The German Constitution specifies that Bund (federal) and Laender (state level governments) have budgetary independence (Art. 109 (1) GG) but must take into account the requirements of overall economic equilibrium (Art. 109 (2) GG). The 1969 Law of Stability and Growth established the Financial Planning Council and the Cyclical Planning Council as coordinating bodies for the two levels of government. It stipulates uniform budgetary principles to facilitate coordination. Annual budgets are required to be consistent with the medium term financial plans. The Law further empowered the federal government to vary tax rates and expenditures on short notice and even to restrict borrowing and equalization transfers. Lander parliaments no longer have tax legislation authority and Bund and Laender borrowing is restricted by the German constitution to projected outlays for capital projects (the so-called "golden rule"). However, federal borrowing to correct "disturbances of general economic equilibrium" is exempt from the application of this rule. The federal government also follows a five year budget plan to so that its fiscal policy stance is available to sub-national governments. Two major instruments were created by the 1969 law to forge cooperative federalism: (i) joint tasks authorized by the Bundesrat and (ii) federal grants for state and local spending mandated by federal legislation or federal-state agreements. An additional helpful matter in intergovernmental coordination is that the central bank (Bundesbank) is independent of all levels of government and focuses on price stability as its objective. Most important, full and effective federal-lander fiscal coordination is achieved through the Bundesrat, the upper house of parliament where laender governments are directly represented. German Bundesrat represents the most outstanding institution for formal intergovernmental coordination. Such formal institutions for intergovernmental coordination are useful especially in countries with legislative federalism. The Constitution Act, 1996 of the Republic of South Africa has established such an institution for intergovernmental coordination called the National Council of the Provinces.

Commonwealth-state fiscal coordination in Australia offers important lessons for federal countries. Australia established a loan council in 1927 as an instrument of credit allocation since it restricted state governments to borrow only from the commonwealth. An important exception to this rule was that states could however use borrowing by autonomous agencies and local government for own purposes. This exception proved to be the Achilles' heel for the Commonwealth Loan Council, as states used this exception extensively in their attempt to bypass the cumbersome procedures and control over their capital spending plans by the Council. The Commonwealth Government ultimately recognized in 1993 that central credit allocation policy was a flawed and ineffective instrument. It lifted restrictions on state borrowing and reconstituted the Loan Council so that it could serve as a coordinating agency for information exchange so as to ensure greater market accountability. The New Australian Loan Council attempts to provide a greater flexibility to states to determine their own borrowing requirements and attempts to coordinate borrowing with fiscal needs and overall macro strategy. It further instills a greater understanding of the budgetary process and provides timely and valuable information to the financial markets on public sector borrowing plans. The process seems to be working well so far.

For the European Union, Wierts (2005) concludes that sub-national governments' contributions to consolidated public sector deficits and debts were relatively smaller as compared to the central governments in most EU countries –federal and unitary countries alike.

#### **4.4 Fiscal Policy Coordination in Brazil: From Fiscal Distress to Fiscal Discipline – A Giant Leap Forward**

Tax assignments mandated by the 1988 Constitution in Brazil reduced federal flexibility in the conduct of fiscal policies. The new Constitution transferred some productive federal taxes to lower level jurisdictions and also increased sub-national governments' participation in federal revenue sharing schemes. One of the most productive tax, the value added tax on sales was assigned to states and the Council of State Finance Ministers (CONFAZ) was set up to play a coordinating role. Federal flexibility in the income tax area, however, remained intact. This gives the federal government some possibility of not only affecting aggregate disposable income, and therefore aggregate demand, but also exerting direct influence over the revenues and fiscal behavior of the lower levels of government which end up receiving nearly half of the proceeds of this tax. The effectiveness of such a policy tool is an open question and critically depends upon the goodwill of sub-national governments. Consider the case where the federal government decides to implement a discretionary income tax cut. The measure could have a potentially significant effect on the revenues of state and local governments, given their large share in the proceedings of this tax. It is possible that, in order to offset this substantial loss in revenues from federal sources, lower levels of government might choose either to increase the rates and/or bases on the taxes under their jurisdiction, or increase their tax effort. Such state and local government responses could potentially undermine the effectiveness of income taxes as a fiscal policy instrument. Thus a greater degree of intergovernmental consultation, cooperation and coordination would be needed for the success of stabilization policies.

An overall impact of the new fiscal arrangements was to limit federal control over public sector expenditures in the federation. The success of federal expenditures as a stabilization tool again depends upon sub-national government cooperation in harmonizing their expenditure policies with the federal government. Once again, the Constitution has put a premium on intergovernmental coordination of fiscal policies. Such a degree of coordination may not be attainable in times of fiscal distress.

A reduction in revenues at the federal government's disposal and an incomplete transfer of expenditure responsibilities has further constrained the federal government. The primary source of federal revenues are income taxes. These taxes are easier to avoid and evade by taxpayers and therefore are declining in relative importance as a source of revenues. Value added sales taxes, which are considered a more dynamic source of revenues, have been assigned to the state level. Thus federal authorities lack access to more productive tax bases to alleviate the public debt problem and to gain more flexibility in the implementation of fiscally based macroeconomic stabilization policies. According to Shah (1991, 1998) and Bomfim and Shah (1994) this situation could be remedied if a joint federal-state VAT to be administered by a federal-state council were to be instituted as a replacement for the federal IPI, the state ICMS, and the municipal services tax, which bases partially overlap. Such a joint tax would help alleviate the current federal fiscal crisis as well as streamline sales tax administration. They argued that Federal expenditure requirements could be curtailed with federal disengagement from purely local functions and by eliminating federal tax transfers to municipalities. Transfers to the municipalities would be better administered at the state level as states have better access to data on municipal fiscal capacities and tax effort in their jurisdictions. Some rethinking is in order on the role of negotiated transfers that have traditionally served to advance pork-barrel politics rather than to address national objectives. If these transfers were replaced by performance oriented conditional block (per capita) federal transfers to achieve national (minimum) standards, both the accountability and coordination in the federation would be enhanced. These rearrangements would provide the federal government with greater flexibility to pursue its macroeconomic policy objectives. Finally, they advocated the development of fiscal rules binding on all levels of government and a federal-state coordinating council to ensure that these rules are enforced.

There has been significant progress on most of these issues in recent years. For example, negotiated transfers have become insignificant due to the fiscal squeeze experienced by the federal government. The senate has prescribed guidelines (Senate Resolution #69, 1995) for state debt: maximum debt service is not to exceed 16% of net revenue or 100% of current revenue surplus, whichever is less and the maximum growth in stock of debt (new borrowing) within a 12 month period, must not exceed the level of existing debt service or 27% of net revenues whichever is greater (Dillinger, 1997). More recently in 1998, pension and civil service entitlements reform have introduced greater budgetary flexibility for all levels of government. Likewise, after the suboptimal results achieved from letting capital markets discipline sub-national borrowings, the Brazilian federal government opted for establishing a fairly constraining set of Fiscal Responsibility institutions. First, the Law 9696 of September 1997 set up the framework for a series of debt restructuring contracts between December 1997 and June 1998, whereby a portion of debt (20 percent) should be paid with the proceedings of privatization of state assets, while the remaining portion of state and local debt was restructured with maturities up to 30 years at a subsidized interest rate (equal to 6 percent annual real rate). Debt restructuring contracts become comprehensive in scope as twenty five out of 27 states and over 180 municipalities signed debt restructuring agreements (Goldfajn and Refinetti 2003, IMF 2001). In exchange the contracts require the SNGS' commitments to engage in adjustment programs aimed to reduce the debt to net revenue ratio to less than one over a per-case negotiated period of time. Contracts established sanctions for violations to adjustment program agreements, such as increase debt service caps (annual debt service to net revenue ratio of 13 to 15 percent above which service debt is capitalized) and substitutions of market interest rate for the subsidized interest rate. Debt restructuring contracts also impose stringent penalties for non-compliant states and in the event of a default, authorize the federal government to withhold fiscal transfers or, if this is not enough, to withdraw the amount due to the states from their bank accounts (Goldfajn and Refinetti, 2003, p. 18). Debt restructuring agreements prohibit further credit or re-structuring operations involving

other levels of government. This helps to avoid moral hazard incentives from the possibility of intergovernmental bailouts (IMF, 2001).

Building upon the Law 6996/97 and complementary regulations the Brazilian federal government adopted a Fiscal Responsibility Law (Lei de Responsabilidade Fiscal -LRF) in May 2000 and its companion Law (Lei 10028/2000) binding for federal, state and municipal/local governments. The LRF is likely the most significant reform after 1988 constitution in terms of its impact on the dynamics of federalism in Brazil; as subsequent compromises between states and the federal government have continuously increased the negotiation leverage of the latter increasing also its effectiveness in macroeconomic management. The FRL establishes *ex-ante* institutions such as a threshold state debt, deficit, and personnel spending ceilings. According to the LRF states and municipalities must maintain debt stock levels below ceilings determined by the Federal Senate regulations. If a sub-national government exceeds this debt ceiling the exceeding amount must be reduced within one-year period, during which the state or municipality is prohibited of incurring any new debt and becomes ineligible for receiving discretionary transfers (World Bank 2002). The LRF also regulates that all new borrowing requires the technical approval of the Central Bank and the approval of the Senate. Borrowing operations are prohibited all together during a period of 180-days before the end of incumbents' government mandate (Afonso and de Mello, 2002). In terms of personnel management, the LRF provisions define ceilings on payroll spending. This should not exceed 50 percent of federal government's net revenues while this ceiling equals 60 percent at the sub-national level. The LRF also institutionalized a variety of *ex-post* provisions aimed at the enforcement of its regulations. For governments, violations to personnel or debt ceiling can lead to fines up to 30% of annual salary of the responsible; impeachment of mayors or governors; and even prison terms in case of violation of mandates regarding election years. For capital markets, the LRF declares that financing operations in violation of debt ceilings would not be legally valid and amounts borrowed should be repaid fully without interest. This provision is aimed at discouraging such lending behavior by the financial institutions.

The Brazilian Federation had a remarkable success in ensuring fiscal policy coordination and fiscal discipline at all levels in recent years. By June 2005, the LRF (2000) had significant positive impacts on fiscal performance in Brazil. All states and the federal government have complied with the ceiling on personnel expenditures (50% of current revenues). On debt, only 5 states out of 27 states (inclusive of Federal District) are still above the ceiling of 200% of revenues, owing to 2002 currency devaluation. 92% of municipalities have reduced debts below 1.2 times revenue levels and only a handful of large municipalities have unsustainable debt levels. Primary surplus was achieved by all states by 2004 (Levy, 2005).

## 4.5 Fiscal Management in China: An Unmet Challenge

Before 1980, China's fiscal system was characterized by a decentralized revenue collection followed by central transfers i.e., all taxes and profits were remitted to the central government and then transferred back to the provinces according to expenditure needs approved by the center through bilateral negotiations. Under this system, the localities had little managerial autonomy in local economic development. In 1980, this system was changed into a contracting system. Under the new arrangements, each level of government makes a contract with the next level up to meet certain revenue and expenditure targets. A typical contract defines a method of revenue-sharing, which could be a percentage share that goes to the center, or a fixed fee plus a percentage share. This contracting system means that the economic interests of each level of government are sharply identified.

Under the fiscal contract system introduced in the early 1980s, the localities have controlled the effective tax rates and tax bases in the following two ways. First, they have controlled tax

collection efforts by offering varying degrees of tax concessions. Second, they have found ways to convert budgetary funds into extra-budgetary funds, thus avoiding tax-sharing with the center. As a result, the center has had to resort to various ad hoc instruments to influence revenue remittance from the localities, and these instruments have led to perverse reactions from the localities. On the expenditure side, the center has failed to achieve corresponding reductions in expenditure when revenue collection has been decentralized. The center's flexibility in using expenditure policy has been seriously undermined by the lack of centrally-controlled financial resources and the heavy burden of "capital constructions." Between 1978 and 1992, the ratio of government revenue to GNP dropped from 31 percent to 17 percent. Increasing deficits became a problem, and the lack of funds for infrastructure investment exacerbated bottlenecks in the economy.

Due to the lack of fiscal resources and policy instruments, the central government has found itself in an increasingly difficult position to achieve the goals of macroeconomic stabilization, regional equalization, and public goods provision. In early 1994, the central government initiated reform of the tax assignment system in an attempt to address these difficulties. Under the new system, the center will recentralize the administration and collection of central and shared-taxes and will obtain a larger share of fiscal resources as a result of the new revenue-sharing formula. Initially, among the major taxes only the VAT was centralized. Later in year 2002, the administration of Personal Income Tax and the Enterprise Income Tax was also centralized. The VAT is shared 75:25 (centre-local) and all extra central revenues above the 1993 levels is then shared 60:40. Revenues are returned to provinces using derivation or point of collection basis. The central government expected to improve significantly its ability to use tax and expenditure policies in macroeconomic management as a result of these steps. Nevertheless, the new system fails to address a number of flaws in the old system: (1) the division of tax bases according to ownership will continue to motivate the center to reclaim enterprise ownership whenever necessary; (2) the division of expenditure responsibility is not yet clearly defined; (3) the new system impedes local autonomy as the localities are not allowed to determine the bases and/or rates for local taxes; and (4) the design of intergovernmental transfers is not fully settled yet. In 1994 and 1995, the central government also imposed administrative restrictions on investments by provincial and local governments and their enterprises (see Ma, 1995 for further details) to deal with inflationary pressures. The introduction of the State Council Document No.29 in 1996 and other measures in 1997 to consolidate budgetary management over extra-budgetary funds, sharply restricted the authority of local governments especially rural local governments to impose fees and levies to finance own expenditures.

The Budget Law 1994 prohibits the central government from borrowing from the Peoples Central Bank of China. The Budget Law also requires local governments to have balanced budgets and restricts sub-national governments borrowing in financial markets and issuing bonds (Qian 2000). Legal restraints on sub-national borrowing and unfunded central mandates have encouraged provincial-local governments to assume hidden debts. Such borrowing is channeled through state-owned entities such as urban construction and investment companies, that borrow from banks or issue bonds on behalf of the local government (World Bank, 2005). Such hidden debts pose significant risks for macro stability.

A combination of unfunded mandates and extremely constrained taxing powers generate incentives for local governments to develop informal channels of taxation. This is evidenced by the high levels of extra budgetary funds (self raised funds) at the sub-provincial levels, comprising surcharges, fees, utility and user charges that are not formally approved by the central government while technically legal. A pilot experiment in Anhui province identified collection of per capita fees from peasants for local education, health, militia training, road construction and maintenance, welfare for veterans, and birth control (Yep, 2004). This type of quasi-fiscal income, which



accounted for as high as 56% of total tax revenues in 1996 (Eckaus 2003: China Statistical Yearbook 2000, pp. 257, 271) or 8-10 per cent of GDP in 1995 (World Bank, 2000). This non-tax type of revenue extraction has often imposed excessive burdens in local constituents generating continuous confrontations between peasants and local officials (Lin and Lou 2000, Bernstein and Lu 2000, Yep 2004). As noted by Krug, Zhu, and Hendrischke (2005) sub-provincial governments agencies *de facto* control of the property rights of revenues not covered by the tax sharing system enables “sub-provincial governments at all levels to maintain their residual tax rights over the informal tax system.” (p.11). In fact, institutions ruling sub-provincial taxation are shaped as a complex and asymmetric system of contracts between the provincial government and lower layers of government. More recently the central government has abolished the agricultural income tax and rural fees and charges in 2002 through the “Tax-for-Fee program”. These prohibitions have deleterious consequences for county finances as compensating transfers do not fully cover these growing sources of county finance.

Promoting greater fiscal discipline at the sub-national level in China remains virtually an impossible task so long as local governments retain ownership of enterprises providing private goods, lack clarity in their spending and taxing responsibilities and obtain a disproportionate amount of local revenues from ad hoc central transfers. Thus fiscal policy coordination and fiscal discipline remains an unfinished challenge in China.

#### **4.6 Fiscal Policy Coordination - Some Conclusions**

Fiscal policy coordination represents an important challenge for federal systems. In this context, fiscal rules and institutions provide a useful framework but not necessary a solution to this challenge. Fiscal rules binding on all levels can help sustain political commitment in countries having coalitions or fragmented regimes in power. Coordinating institutions help in the use of moral suasion to encourage a coordinated response. Industrialized countries experiences also show that unilaterally imposed federal controls and constraints on sub-national governments typically do not work. Instead, societal norms based on fiscal conservatism such as the Swiss referenda and political activism of the electorate play important roles. Ultimately capital markets and bond-rating agencies provide more effective discipline on fiscal policy. In this context, it is important not to backstop state and local debt and not to allow ownership of the banks by any level of government. Transparency of the budgetary process and institutions, accountability to the electorate and general availability of comparative data encourages fiscal discipline.

### **5. Fiscal Decentralization and Fiscal Performance: Some Conclusions**

Fiscal decentralization poses significant challenges for macroeconomic management. These challenges require careful design of monetary and fiscal institutions to overcome adverse incentives associated with the “common property” resource management problems or with rent seeking behaviors. These fiscal institutions determine the success of macroeconomic management policies. Experiences of federal countries indicate significant learning and adaptation of fiscal systems to create incentives compatible with fair play and to overcome incomplete contracts. In unitary countries, especially under a single party majority rule, political imperatives to create fiscal institutions of restraint including fiscal rules are less pressing and simply depend upon the commitment of the leadership to bind itself to some discipline as done in Chile. This explains why, paradoxically, the decentralized fiscal systems appear to do better than centralized fiscal systems on most aspects of monetary and fiscal policy management and transparent and accountable governance (see Table VI.2).

**TABLE VI.2**  
**FISCAL DECENTRALIZATION AND FISCAL PERFORMANCE**  
**A SUMMARY OF EMPIRICAL RESULTS**

Fiscal Performance Indicator	Impact of Fiscal Decentralization
Central Bank Independence	Positive and significant
Growth of Money Supply	Positive but insignificant
Inflation	Negative but insignificant
Management of inflation and macroeconomic imbalances	Positive but insignificant
Quality of Debt Management	Positive but insignificant
Quality of Fiscal Policies and Institutions	Positive and significant
Efficiency in Revenue Collection	Mixed but insignificant
Prudent Use of Tax Monies	Positive and significant
Growth of government spending	Negative and significant
Control of fiscal deficits	Negative but insignificant
Growth of Public Debt	Positive yet insignificant
Public Sector Management- Transparency and Accountability	Positive and significant
GDP growth	Positive but insignificant

Source: Econometric results as reported in Table 1.

**BOX VI.1**  
**LEGISLATED FISCAL RULES: DO THEY MATTER FOR FISCAL OUTCOMES?**

During the past decade, fiscal rules defined as legislated controls on budgetary balance, debt restrictions, tax and expenditure controls, referendum for new initiatives on taxing and spending have assumed centre-stage in policy discussions in attempts to restore fiscal prudence in countries facing fiscal stress. The central question in these discussions is the link between legislated rules and fiscal performance. A growing body of literature on this subject fails to reach any definitive conclusions regarding the causal links (see Kopits, 2004 for a review of experiences with fiscal rules in emerging markets). The literature suggests that some countries with legislated fiscal rules such as Sweden and Italy had a remarkable turnaround in fiscal performance over the period 1995 to 2003 and Brazil the same since 2001. India has also shown some progress since 2003. Other countries with legislated fiscal rules did not do so well over the same period such as USA, France, Germany and New Zealand. On the other hand some countries without legislated fiscal rules also succeeded in achieving fiscal adjustment such as Canada, Australia and UK whereas Japan was less than successful (see Finance Canada, 2004, p.74). Non-compliance of France and Germany with the Growth and Stability Pact provisions (legislated fiscal rules) further illustrates the difficulty in binding large constituent units in a federation to fiscal rules.

A closer look at these experiences suggests that successful fiscal adjustment requires sustained political commitment. Such commitment is easier to obtain under a single party majority rule as in Canada, UK and Australia in recent years. However, such a commitment may not be forthcoming in countries with proportional representation (Brazil) or multi-party coalition governments (India) or in countries with separation of legislative and executive functions (USA, Brazil). Fiscal rules in such countries can help restrain pork-barrel politics and thereby improve fiscal discipline. A remarkable example of this is the experience in Brazil. Brazil is a large highly decentralized federation of 26 states and a federal district with a population of 182 million (Year 2005). By mid 1990s, price stabilization policies and associated decline in GDP growth contributed to growing fiscal imbalances at federal, state and local levels. A majority of states faced fiscal crisis as the state debt service to GDP ratio reached 3% of GDP and growing personnel expenditures (in some states and local governments reaching 90% of operating expenditures) limited their abilities to meet ever increasing demands for social services. Against this backdrop, federal and state treasury secretaries undertook a study tour of Australia and New Zealand to reflect upon options to arrest impending fiscal crisis. At a retreat in Auckland, New Zealand in 1997, they reached a consensus that Brazil must enact fiscal rules binding at all levels to avert the crisis. While initiating a campaign to build consensus for such future legislation, the Federal Government initiated a program of state fiscal strengthening program whereby states were offered incentives to enter into formal contracts on a bilateral basis with the Federal Government to close down or sell state owned banks and to undertake expenditure restraints. By the Year 2000, political consensus was forged to enact stringent fiscal rules binding on all governments. This legislation, the so-called Fiscal Responsibility Law of 2000 prohibited intergovernmental debt financing, placed stringent limits on debt and personnel expenditure, imposed verifiable fiscal targets and transparency rules and adjustment rules and mandated institutional and personal sanctions including fines and jail terms for political and bureaucratic officials of all orders of governments. This legislation had a positive impact on fiscal performance – by 2004 all states had achieved primary surplus, all had restrained personnel expenditures to 50% of current revenues and all states and municipalities had reduced debt burdens.

India is a much larger but compared to Brazil a relatively less decentralized federation of 28 states and seven union territories with one billion people (Year 2001). India's fiscal situation paralleled that of Brazil in the 1990s and it has essentially followed Brazil's lead in dealing with fiscal imbalances at federal and state levels. The State of Karnataka took the lead in enacting fiscal responsibility legislation in August 2002 and established specific targets in reducing revenue and fiscal deficits and introducing fiscal transparency. This was followed by the Federal Government with its own legislation enacted exactly one year later in August 2003. Subsequently seven more states have followed suit. In April 2005, the 12<sup>th</sup> Finance Commission in its report to the Government of India in April 2005 recommended federal assistance to encourage enactment of state fiscal responsibility legislation and added incentives when states comply with their legislation. This inducement proved attractive and by December 2007, most states had enacted fiscal responsibility legislation. It should be noted that unlike Brazil, legislation in India does not specify institutional and personal sanctions in the event of non-compliance and does not have stringent fiscal rules for spending and debt restraints but instead long run goals. Such legislation, nevertheless, provides time tables for eliminating revenue deficits and restraining fiscal deficits. While it is too early to judge the impacts of this legislation, initial results appear promising and several states have been successful in reducing operating deficits (see Howes, 2005 for details). More importantly though, this legislation is creating new political dynamics. For example, the Chief Minister of the State of Orissa has used the legislated fiscal rules to restrain spending demands by his cabinet colleagues and by state legislators.

In conclusion, while legislated fiscal rules are neither necessary nor sufficient for successful fiscal adjustment, they can be of help in forging sustained political commitment to achieve better fiscal outcomes especially in countries with divisive political institutions or coalition regimes.

Source: Author.

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## **VII. The Future of Budgeting: more of the same but different**

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***Allen Schick***

Budgeting has an uncertain future. In some futuristic scenarios, it will wither away as a means of allocating public money. Instead of recurring routines that are predetermined by a fixed calendar, spending units will continue to operate from one year to the next without government making explicit decisions on the amounts that will be available to them. New spending decisions will be episodic, occasioned by changes in government policy rather than by a cyclical timetable. This scenario has been promoted by the “Beyond Budgeting” movement which argues that the traditional budget process is too flexible, too time-consuming, too bureaucratic and stressful. Their solution is to eliminate standard budget procedures and have organizations make financial decisions only when they want to make significant policy changes that would change the amounts spent.

At the other end of the futuristic spectrum lies the “participatory budgeting” movement which seeks to make public discussion of spending priorities the hub of government policy. The participatory model has been pilot tested in some subnational governments, but has not yet been tried on the national level. The pilots indicate that it is feasible to generate informed civil society participation by providing information on budget options and creating forums in which citizens and groups can exchange views.

Thus far, neither movement has made significant headway, though one can discern tendencies that may sway budgeting in one direction or the other. “Beyond Budgeting” finds justification in the large share of national budgets that is earmarked in permanent legislation for entitlements and other mandatory payments. To the extent this portion on expenditure is on automatic pilot, there is little need for recurring budget procedures. The push for participatory budgeting is rooted in efforts to make government policies more transparent and responsive to citizen demands. An open, participatory process would transform budgeting into a platform for expanding citizen rights and would spur government to address hard core social issues such as the effect of government spending on the distribution of income and incidence of poverty.

In between the extremes of steady-state budgeting and budgetary democratization lie many possible futures. Because the future is so uncertain, the best guide to how it might evolve in the decades ahead is to look back at how it has already changed. This paper regards budgeting as an evolutionary process that continually adapts to changes in its environment. Section 1 introduces the concept of budgeting as a change-oriented process, and examines some of the adjustments made in budget innovation: (1) changes in the structure or content of the information processed in budgeting; (2) adjustments in the roles assigned to participants in the process or in the relationships with others involved in budget work; (3) changes in the rules for allocating and spending public money; and (4) modification in the incentives given to budget participants. Section 3 reviews the colonization of budgeting by economics and accounting, as well as the influence of managerial trends and concepts. The principal theme is that budgeting is strongly influenced by developments in other fields. The concluding section expresses the view reflected in the title of this paper, that the future of budgeting will be more of the same but different. Future innovations will not be as bold as has been envisioned by beyond budgeting and participatory budgeting.

## 1. Budgeting as an Evolutionary Process

Budgeting is an evolutionary process that continually adapts to changes in the conditions under which governments spend money and deliver services. Stimulus for change can come from any idea or practice that challenges the established ways of budgeting, but the strongest influences have been (and likely will continue to be) changes in political expectations and in the role of government, cyclical and secular shifts in economic circumstances and fiscal doctrine, and the emergence of new administrative practices and standards. In reflecting on the future of budgeting, it is necessary to consider prospective developments in each of these areas, as well as the impulse for reform that arises within the practice of budgeting. When it comes to its future, budgeting is both a dependent variable that responds to political, economic and managerial signals, and an independent variable that remolds itself on the basis of ongoing experience in managing public expenditures.

The vantage point of the paper is the nation-state, and the key questions it considers pertain to how national budgeting might be impacted in the decades ahead by powerful trends in governance, economic relationships and performance, and management practices. While many routine procedures of budgeting are common to all levels of government, it is the nation that has lead responsibility for fiscal management, tax policy, income stabilization, and international relations. The budget is one of the national government's essential tools for managing these critical tasks.

Inevitably, as the roles and responsibilities of national governments change, the conduct of budgeting adjusts to new demands and conditions. But there is another facet to budgeting that generates change from within and explains why it is open to reform. Budgeting is a restless process that is perennially in search of better means to allocate and spend public money. Budget officials constantly tinker with rules and procedures, trying out new methods and adjusting old ones.

Evidently, some irritants in the conduct or outcomes of budgeting impel practitioners to innovate. In this writer's observation, the main irritant is chronic dissatisfaction with the way budget decisions are made. Most people who work in budgeting come away from the annual grind hoping for a more rational, less fractious, process for deciding who gets what. They buy into the latest reform because it promises to bring more order and reason to budgeting. When it falls short of the mark, the stage is set for yet another round of reforms.

Pervasive dissatisfaction spurs budget makers to look for clues as to how the process may be improved. They take an interest in what other governments are doing to upgrade practices, as well as to the advice offered by international organizations. The state of the art in budgeting often is defined by others, but it is the self-generated quest of budget practitioners for better procedures and more satisfactory results that provides an accommodating place for novel approaches. In the endless quest for improvement, budgeting is indeed the dependent variable, but it has a perspective of its own.

This perspective is anchored in the cyclical routines of budgeting which continue from one year to the next, even when innovation is in the air. Regardless of the format used, budget work is centered on bids for resources by spending units, review of the bids by central agencies, allocations recommended in the budget submitted by government to the legislature, and procedures for monitoring and reporting the expenditure of funds. These routines are essential for sound budgeting because they parcel out roles, inform participants what is expected of them, set deadlines for required actions, and moderate conflict over financial resources. Because the budget is one of the few decisions that government must make on a fixed schedule, having preset routines facilitates timely completion of essential actions. If the process were bereft of stable routines, governments would likely face elevated conflict over procedures and allocations. The need to devise new rules along the way would impair the government's capacity to decide the budget.

In budgeting, as in other activities, routine is the enemy of innovation. The more budgeting is beholden to preset procedure, the less open it is to adaptation. But the more adaptive it becomes, the less reliable established procedure are in structuring expenditure bids and allocations, and in stabilizing relationships between claimants for money and guardians of the public purse. When routine blocks innovation, managers and policy makers may evade budget procedures in order to accomplish their objectives. For example, traditional budget systems were designed to regulate the operating expenditures of government agencies, but as governments broadened their responsibility for income stabilization, politicians bypassed the budget process by entitling citizens to payments in standing legislation. Politicians also evade budget procedures that get in the way through ad hoc spending decisions made throughout the year and by establishing off budget (or extrabudgetary) funds that are not subject to regular budget rules.

Budget innovation inherently requires balancing established routines and new processes. Maintaining balance tends to be relatively easy when, as often happens, the adjustments in budget procedure are minor, for example, when governments consolidate previously itemized expenditures in broader categories. From time to time, however, innovators seek to uproot long-established procedures, such as reorienting budget decisions from inputs to outputs, or from a single fiscal year to the medium term. In these cases, reformers often take the easy way out by establishing a separate, parallel budget system. The government then appears to have two budget systems, one based on entrenched routines, the other on a novel approach. In operation, however, one system will be the basis of allocation, while the other will be a secondary means of displaying budget information. Typically, it is the established system that is used to decide the budget; the new procedures then wither away.

Budget innovation succeeds only when it displaces established procedures. The difficulty of doing so explains why budget reforms have a high failure rate. But if established routines always

prevail, the conduct of budgeting would inevitably become misaligned to political, economic and managerial conditions. Apparently, budgeting does have the capacity to change, even though some of the most heralded reforms fall by the wayside. If budgeting's past is prologue to its future, the same pattern will persist in the decades ahead. Budgeting will remain more of the same, and budgeting will become a different process.

Budgeting in the early 21<sup>st</sup> century is a markedly different process than it was a generation or two ago. It gives less attention to line items and more to performance and results, less to the details of expenditure and more to the purposes. Many national governments have added output or outcome data to the budget to supplement input-oriented data. A few have purged inputs from the budget and now base spending decisions on the volume of goods or services to be produced. In quite a few countries, budget decisions are no longer bounded by a single fiscal year, but are made within a medium-term framework that explicitly considers the future financial implications of current decisions. Although annual budgeting survives in all but a few countries, it often is regarded merely as the first year of a medium-term expenditure framework (MTEF).

As the time frame of budgeting has been lengthened, budgeting has become a more top-down process in which government sets fiscal boundaries and provides policy guidance before spending units bid for resources. A key feature of top-down budgeting is construction of baseline projections (or forward estimates) of future budget conditions assuming no change in policy. These projections typically cover the next 3-5 years, but in few countries they have been extended to 30-50 years and are used to assess the long-term sustainability of budget policy.

The relationship between the budget and other financial statements has also been recast. It was not long ago that the typical country applied accounting standards to financial reports, but not to the budget and related documents. Nowadays, however, some countries extend accounting rules to budget, and a larger number have introduced means of reconciling the budget and other financial statements. One of the key issues in contemporary budget innovation is whether the accrual basis should be applied to the budget. Doing so would significantly affect budgeting for physical assets, civil service pensions, and other post-employment benefits.

In many countries, important changes have come to legislative work, as parliaments now exercise greater independence in budget matters. Some legislatures have their own budget staffs, and many actively amend the budget submitted by government. Legislative independence has been accompanied by greater media attention to the budget, as well as by a significant increase in pressure by interest groups and NGOs. As government has lost its monopoly on budget information, the budget has become a more contentious activity. There are notable exceptions, however, particularly in Westminster countries, where the legislature's budget role is very limited.

One of the most far-reaching changes has been to give spending units broad flexibility in using appropriated funds. In some countries, each spending unit receives a global budget that covers all operating expenses; it thereby has substantial freedom in purchasing various inputs, such as personnel, travel, and supplies. Some governments that have decentralized public management enable spending units to carryover unused operating funds from one year to the next, to manage their own bank accounts, and to pre-spend a portion of the next year's allocation. It should be noted, however, that most national governments still constrain managerial discretion, though to a lesser extent than in the past.

The innovations mentioned thus far have been procedural. Overshadowing these developments has been a truly significant shift in the composition of public expenditure. In almost all high-income countries, and in some middle-income countries as well, most of the growth in national expenditure has occurred in transfer payments mandated in permanent laws that set eligibility criteria and payment formulas but do not specify the amounts to be spent each year. The



traditional budget system, which was designed for annual, discretionary decisions, is ill-suited for entitlements. In practice, the budget does not exercise effective control over entitlements; in most cases, it merely records the amounts required by law.

Over time, budgeting has become less an instrument of administrative control and more a policy tool of government. This shift is reflected in the emphasis on performance, elongation of the budget calendar, the shift from ex ante controls to ex post evaluation, and other innovations. However, the transformation of budgeting into a policy-oriented process is far from complete. Many governments still struggle with the definition and measurement of performance and have difficulty linking decisions on resources to evidence on results. In most countries that have introduced it, the medium-term framework is not well integrated into the ongoing budget process. Governments that have released managers from burdensome financial controls have had only middling success in holding spenders accountable for the use of public money. The legislature's budget role is in flux, with controversy over the discretion it should have to make its own revenue and spending decisions.

These examples suggest that budget innovation has not run its course. There will be further waves of reform, both to strengthen previous innovations and to respond to changing political, economic and administrative circumstances. In the future, no less than in the past, budgeting will be a work in progress.

## **2. Means of Budget Evolution**

To understand how budget systems evolve, it is necessary to decompose the process into its essential components. Although governments differ in how they prepare and implement budgets, their basic procedures consist of four elements. (1) The information processed in allocating resources and spending authorized funds; (2) the roles of participants in the process; (3) the formal and informal rules by which they operate; and (4) the incentives they have in requesting, allocating and spending public money. Innovation in budgeting entails adjustments to one or more of these components. Major reforms may spawn changes in all four elements, but even minor adjustments depend on changes in budget information.

Budgeting is a system for processing and exchanging information among financial decision makers in government. In fact, almost all the effort that goes into compiling and executing the budget revolves around producing, reviewing, and classifying information on government revenues and expenditures. Line-item budgeting has information on the details of expenditure, program budgeting on the objectives of expenditure performance budgeting on outputs or outcome, a medium-term expenditure framework (MTEF) on the future fiscal position of government. Often, innovation adds to the stockpile of budget information, occasionally new information is substituted for old. For example, when it introduces performance budgeting government can add information on the volume or cost of outputs, without curtailing input-based data. Alternatively, it can purge input data, leaving data on outputs as the sole basis for spending decisions. When new information is merely additive, it usually is merely another way of viewing or presenting the budget; when it is substitutive, it is the basis for deciding the budget. Because it is much easier to add than to substitute information, budget innovation rarely uproots the established basis for making spending decisions.

This distinction points to a fundamental constraint on budget reform. Innovations that only change the informational content of the budget are much less effective than those which change the manner in which information is classified for budget decisions. Although there are many ways to tell the budget's story, there can be only one way to structure it for decision. When, as is often the

case, the budget is classified by organization units, spending decisions will not be made by programs; if expenditures are classified according to inputs, decisions will not be based on outputs. Because governments typically settle for additional information, budget innovations tend to fall far short of expectations. There are some notable exceptions, however. When New Zealand moved to budget on the basis of output classes, it removed all input information from the budget, and when Australia adopted a medium-term framework, it established forward estimates as the basis for spending decisions.

The basic limitation of additive information is that it can be ignored when budget resources are allocated. Nevertheless, it may be worthwhile to enrich the quality of budget information by adding data on results, future fiscal conditions, and other matters of interest. Over time, the enriched information may sway budget decisions, especially if it is accompanied by changes in budget roles, rules or incentives.

In injecting more information into the already congested budget cycle, governments should be mindful of why seemingly vital information, such as data on performance and results, often fall into disuse. One reason is that there simply is not enough time to consider all available information within the deadline-driven time-table of budgeting; another is that politicians and managers may be discomforted by new information which calls their budget preferences into question. In budgeting, information is not free; it crowds out attention to other data or activities relevant to allocating public resources. New information is most likely to be used if it is substitutive rather than additive, that is, when some previously available information is removed from the budget process. Doing so can be risky, however, if it exposes government to charges that it is concealing relevant budget information.

New types of data often challenge the budget preferences of politicians or managers. Performance data frequently reveal that coveted programs don't produce expected results, medium-term projections sometimes show that policy initiatives promoted by government would unbalance future budgets. In situations such as these, new information is likely to be integrated into budget work only if it is deemed essential. For example, medium-term projections are essential when an MTEF displaces annual budgeting as the central allocative process of government. Performance information has rarely acquired status as essential, which is one of the reasons why it is routinely disregarded.

Looking ahead to budgeting's future, one can foresee a significant increase in information on the distributive impacts of public expenditure. Harbingers of this prospective development include the "engendered budget" movement which urges governments to estimate the shares of public expenditure that benefit men and women, as well as pressure from international organizations and NGOs that low-income countries publish data on the extent to which their budgets are pro-poor. These types of estimates would be made for individual programs, not just for the budget as a whole. In some countries, private groups estimate the budget shares spent on young versus old citizens, and on rural versus urban dwellers. Demands for greater transparency and for enhanced citizen participation will impel many governments to incorporate distributive data in official budget statements.

Data on certain expenditure impacts already appear in the budgets of some innovative governments. One can envision a future in which it is standard practice to publish data on the environmental impact of budgeted expenditure, as well as the impact on various economic indicators such as employment and inflation. Impact estimates can be extended to many areas of political interest, such as the effects on urban or rural areas, on children, women or other classes of citizen, and the impact on exporters or importers.

As already noted, budget systems mitigate information overload by disregarding data that gets in the way of timely decisions. But information cannot be disregarded if it becomes essential, as occurs when legal actions can be brought against the government for adverse impacts. Even when information is not essential, it can complicate budget work by generating conflict. Because of the need to complete work on time, budgeting has a low tolerance for innovations that add friction to what is inherently a stressful process. The most expedient way for budget makers to dampen conflict is to disregard all the innovative data that get in their way.

**Roles.** Budgets are made by people who exercise authority or carry out assigned tasks within government. The roles played by participants tend to be stable because they inform budget makers what is expected of them. It is quite common for staff in spending units to prepare next year's estimates by looking back to how the previous year's were compiled, and for staff in the central budget offices to follow the same review procedures year after year. Budgeting would be a chaotic process if participants have to reinvent their roles each year. Budget roles also are specialized, with well-established divisions of labor between those at the center of government and those in central departments, as well as between politicians and managers. Inherently, roles have both formal and informal dimensions. The formal role of senior managers in spending units, recognized in law and in practice, is to request money for the next fiscal year or longer; their informal role includes asking for more funds than were allocated for the previous. The formal responsibility of central budget staff is to review spending bids to assure their accuracy and congruence with government policy; their informal role is to recommend less than was requested by spending units.

Informal behavior tends to vary from one year to the next in response to shifts in the political or economic context within which budgets are made. One year, central officials may signal that they are receptive to spending initiatives, another year they may indicate that spending will have to be curtailed. Behavior may also be affected by personnel changes, as new people bring different temperaments or perspectives to the process. Some finance ministers are comfortable resolving budget issues in bilateral negotiations with spending ministers; others take unresolved matters to cabinet or decide them unilaterally.

Research conducted by various researchers during the past two decade has generally found that budget outcomes vary with differences in the roles assigned participants. Governments that arm the finance minister with the final say in spending disputes tend to have a more disciplined budget and smaller fiscal deficits than those in which ministers logroll in cabinet to protect or increase their budget shares. Similarly, a government that empowers the legislature to appropriate more than was budgeted will incur higher deficits than one which constrains the legislature's budget role.

The relationship between budget roles and outcomes suggests that efforts to alter the way governments budget depend on success in changing budget roles. Alternatively innovations can change budget results by bringing new participants into the process or by removing old ones. In most countries, economists now have an important role in constructing baseline and macroeconomic forecasts; in many, policy analysts and program evaluators have become active, though not always influential, participants in budget decisions. At the same time that new roles have been added, some traditional ones have been eliminated. Central budget offices were once amply staffed with controllers who kept watch over implementation of the budget and monitored the line items to ensure that agencies did not breach preset limits. In innovative countries, most of these positions have been abolished as responsibility for managing expenditure has been devolved to sectoral departments and operating agencies.

All significant innovations in budgeting entail reformulation of budget roles. One of the reasons why budget reforms often fail is that formal characteristics are changed, but behavior isn't. Zero-base budgeting failed because budget officials still behaved incrementally, reviewing next

year's request in the light of the previous year's allocations; program budgeting failed because more attention was made to organization structure than to program classification; performance budgeting has had recurring difficulty because governments still care about the inputs purchased with public funds. Changing the behavioral underpinning of budget work is difficult, but is facilitated when new information is substitutive rather than additive, when new budget rules alter the relationship among participants, and when politicians and managers are given incentives to adopt new ways.

The role of the central budget office is critical in efforts to reorient budgeting, not the least because it has lead responsibility for managing the process, but also because how it behaves affects the roles of other participants. Major contemporary reforms such as program and performance based budgeting and MTEF call for transformation of the budget office from controller of expenditure to central policy maker and promoter of managerial improvement in government. In some countries, this has been a difficult shift, for the budget office has lost its old niche but has not been able to claim a new one. Typically, the budget office has rivals at the center of government who may be better situated (in the president's or prime minister's office) to lead the policy process. It may also be impeded in trying to assume managerial leadership by complaints that it is meddling in the business of sectoral departments. Having surrendered traditional roles without firmly establishing new ones, some budget offices have experienced a severe identity crisis. This is not a happy predicament for an agency that sits at the center of government and manages the purse strings.

The future role of their budget office will depend on developments outside the ambit of budgeting. Much will depend on the roles and resources of other central government policymakers, such as the prime minister's office and (if one exists) the national planning office. The niche occupied by the budget office also will depend on whether it is part of a large finance ministry or a free standing agency, whether parliament has its own budget staff or relies on the government for fiscal data and analysis, and whether it leverages budget work by linking it to other important tasks such as macroeconomic forecasting, and public management.

What and how the budget office goes about its responsibilities in the future will likely depend on the fiscal condition of government. If substantial fiscal space is available for policy innovation, the budget office might persist on an incremental path, setting the next year's spending level in the light of the previous year's. If fiscal space is scarce, the budget office will bear the brunt of program-cutting, an exercise that wins few friends in political circles. Ideally, the budget office should have a strategic focus, probing changes in the economy and society that fundamentally affect public finance. It should take the lead in assessing the long-term sustainability of the government's financial commitments, and it should deploy machinery of budgeting to deking national policies and priorities. But as much as it may want to be strategic, the budget office is constrained by the demanding routines of the process and by its need to serve decision makers who have a short-term focus.

**Rules.** Budget systems operate according to formal rules codified in law, administrative regulation and accounting standards, as well as in informal conventions that become accepted ways because they are repeated year after year. Most of the rules are procedural; they prescribe how estimates should be compiled and reviewed, the form of appropriations, requirements for making and reporting expenditures, the calendar for the many actions taken within each cycle, and so on. Procedural rules also specify whether and how funds may be shifted from one account or purpose to another during the fiscal year. Some rules are substantive; they determine the amounts to be spent and sometimes limit the discretion of budget makers. Legislation that mandates payments for pensions, unemployment or other purposes establishes a substantive budget rule, as does legislation that limits expenditures or deficits as a share of GDP.

Budget rules tend to accrete over time. The typical government has many more procedural and substantive rules in the early 21<sup>st</sup> century than it had several decades ago. This tendency is strongest when budget reforms are additive; each wave of reform deposits new requirements on top of the old ones. Over time, therefore, budgeting has become more rigid both in the volume of procedures that must be completed and in the allocations made for prescribed purposes. One of the challenges facing budget innovators in the future will be to make budgeting more pliable by deregulating some procedural and substantive requirements.

Innovative governments have taken different paths in modernizing their budget systems. Some have codified significant reforms in law, as New Zealand did when it adopted output-based budgeting and Russia did when it transitioned to a market economy. Some countries have introduced new practices without modifying the legal basis of budgeting. This has been Britain's style; the advantage is that no law is breached, or has to be adjusted if, as often happens, reform falters. On the other hand, law-based reforms are likely to induce greater compliance and survive longer.

Whether formal modifications are embedded in law or in administrative guidance, budget practices change only when the behavior of participants also changes. The history of budget reform is littered with promising innovations that failed because participants in the process persisted in their established ways. Past efforts to implement zero-base budgeting were thwarted by the incremental behavior of budget makers who continued to use the previous year's budget as the starting point for the next year's. Similarly, efforts to adopt a program budget have been impeded by attention to inputs in allocating resources. In many countries, the aims of MTEF have been undermined by treating it as a supporting document while making spending decisions on an annual basis. New rules, like new information, are effective only when they displace old ones. When they don't, government risks running two parallel budget systems, one anchored in tradition and behavior, the other prescribed in law or administrative rules. This dualism partly explains why many innovations, such as those mentioned in the preceding sentences have failed.

During the past decade, fiscal rules which constrain budget aggregates have been adopted in many countries. The best known of these rules is the Stability and Growth Pact which purports to limit the budget deficits and public debt of European Community countries. Some developing countries have been constrained by fiscal conditionalities imposed by the IMF or other international financial institutions. Others have implemented fiscal responsibility rules that require the government to specify budget aggregates for the medium-term or beyond and to operate within these constraints. A substantial body of research has found that these rules do bolster fiscal discipline. However, few countries have put fiscal rules to a full test, for the economic boom of the past decade has made it possible for governments to abide by the targets even when they boost spending or cut taxes.

There is a strong basis to conclude that fiscal rules, like other budget rules, are most effective when politicians willingly comply with them. If they don't, willful politicians can employ various tricks to make it appear that they are abiding by the rules while they violate them. The tricks of the trade include deferring expenditures and accelerating revenues, booking income from the sale of assets as current revenue, hiding expenditures in off budget accounts, and much more. Fiscal rules depend on the behavior of those responsible for managing government budgets; the rules help only when they want fiscal discipline.

Incentives. In innovative countries, changes in information, rules and roles converge to alter the behavior of budget participants. This effect can be illustrated with a few examples from recent reforms. Before, MTEF, claimants for additional resources had an incentive to defer additional spending 2-3 years ahead, beyond the single-year horizon of annual budgeting. Under MTEF, this

tactic would not be effective because the additional out year spending would appear in the budget. In the absence of fiscal rules, spenders have an incentive to seek unrealistic increase in resources, in the expectation that the more they demand, the more they will get. With the imposition of fiscal rules, spenders are constrained in the amounts they must request and have somewhat stronger incentive to trade away some existing expenditures for new ones. Innovations that enable spending units to carry forward unused operating funds to the next fiscal year alter incentives to spend all available funds before the year ends.

Not all budget innovations spur budget participants to behave differently. In most governments that have introduced performance budgeting, participants still focus on the cost of inputs rather than on outputs and outcomes. Moreover, few governments have successfully motivated managers to take responsibility for program results. It is not worth noting that incentives may continue to be misaligned with government objectives when budget reforms are additive and allow pre-existing procedures to continue. Even when reforms are substitutive, participants may persist with their old ways. It is naïve to assume a linear relationship between changes in budget practices and changes in the behavior of spenders and guardians. Budget participants must consider a broad range of political and managerial influences, some of which are beyond the scope of budgeting, when they act.

Fundamental changes in budget behavior generally require significant innovation in the political or managerial machinery of government. When Australia launched its pioneering version of MTEF, it armed the expenditure review committee (ERC), a subcommittee of Cabinet, with broad powers to allocate budget resources, and when New Zealand shifted to output-based budgeting, it first restructured the public sector to give managers broad discretion in running their organizations. The clear lesson from these and other successful innovations is that budget reform is effective when it is embedded in a broader agenda of government transformation.

### **3. The Colonization of Budgeting**

Budgeting has distinctive practices, but it lacks an intellectual tradition of its own. Early in budgeting's modern history, efforts were made to codify basic principles, such as annuality, accuracy and comprehensiveness, but there have been no systematic recent efforts to define its conceptual underpinnings. It is difficult, perhaps impossible, to carve out a wholly-separate field of budgeting because it is at the crossroads of so many other fields. The conduct of budgeting—both the procedures applied and the substantive decisions—are swayed by developments in economics, accounting and public administration, as well as by decisions made by legislature, courts and international organizations. The colonization of budgeting by other disciplines and activities means that much of its future will depend on developments outside the field of budgeting itself.

Developments in economics have been among the most important influences on budget practice; the impact is felt both in the process and spending decisions. Most national governments base budget decisions on econometric projections of GDP, price changes, employment and other key variables. Many employ economic models to estimate future spending on pensions, health care, education or other programs that are sensitive to socioeconomic trends. Economic thinking has promoted the integration of tax expenditures into budget work, new methods for assessing the risk to government from contingent liabilities, development of fiscal rules that constrain budget aggregates, and methods for measuring the distributive impacts of revenue and spending decisions.

One of the most prominent contemporary influences of economics has been the definition of the three main budgetary objectives as maintaining fiscal discipline, strategic allocation of resources, and efficient operation of government. This framework is derived from the well-known

construct devised by Richard Musgrave to assess public finance. Although the framework has rarely been applied by governments to evaluate their own budget operations, it is routinely used by international organizations. The framework has been especially useful in designing MTEFs and in clarifying the different informational requirements, roles and rules of budgeting. However, the framework is sometimes misused when analysts rank the three functions of budgeting in descending order, thereby giving much less weight to the delivery of public services than to having a stable fiscal policy.

Economists approach budgeting from a rationalist, analytic point of view. They are constantly inventing new analytical tools to assess the efficiency of public expenditure. But they often go further and argue that the tools should be cast into rules that determine how budgets are made and resources allocated. They disregard the fundamental difference between tools and rules; the latter constrain budget makers; they dictate the form of the budget and often allocations as well.

Although it is unrealistic to predict the future course of economics, it is possible to foresee some likely impacts on budgeting. The strong interest in fiscal sustainability indicates that economists will push for lengthening budget analyses well beyond the 3-5 years covered by MTEF. Contemporary economists have a lively interest in several issues affecting low and middle income countries, including the use of budget policies to promote national development, the impact of fiscal decentralization on government finances and on the efficiency of public services, and the means of implementing pro-poor budgets. This is certainly not a complete list, for economists have a penchant for analyzing questions that once were far from their core interests.

Accounting. Because accounting and budgeting both pertain to the financial transactions and condition of government, it might be assumed that they have common concepts and definitions. In fact, the two have long diverged in many countries, with accounting practices defined by international or country-specific principles, and budget practices determined by convention. One of budgeting's oldest conventions is that revenues and expenditures be recorded on the cash basis. Revenue is recognized when it is received, not when it is earned; outlays are recognized when money is disbursed, not when liabilities are incurred. As accounting practices shift away from cash to the accrual basis, the gap between them and budgets inevitably widens, except in those few countries that have put budgets on an accrual basis.

Accounting and budgeting often differ in the scope of their respective financial statements. Whole of government accounting is in vogue, which means that all of the government's finances are consolidated in a single statement, regardless of fund or agency. By definition, however, budget statements exclude offbudget and extrabudgetary funds. On certain matters, however, budgets generally recognize transactions that are excluded from accounting-based financial statements. The budgets of many governments recognize tax expenditures; financial statements do not. The budgets of innovative governments provide data on guarantees and other contingent liabilities; few financial statements provide this information.

In recent decades, accounting and budget practices have started to converge. One impetus has been adoption of the accrual basis for financial reporting; another has been the advantage of having a consistent set of data for government finances. There is much greater emphasis than in the past on measuring the government's financial condition in reference to the balance sheet, and some governments now incorporate this statement in their budgets. However, from a budget perspective, accounting rules sometimes produce strange results. For example, accounting statements generally recognize the future liabilities accruing from pensions and health care provided to retired government employees, but not the much larger liabilities arising out of pensions and health benefits promised to citizens.

Accounting and budgeting are beginning to converge on a matter of great concern to forward-looking national governments –the long-run sustainability of their fiscal policies. Australia, New Zealand and the United Kingdom are among the innovators in this field, hiding fiscal models that project revenue and expenditure under current policies 30-50 years into the future. Doing so requires development of new accounting and analytic tools such as inter-generational accounting and present value budgeting to measure the future gap between revenues and expenditures and to estimate long-term changes in tax burdens.

Future developments in accounting will spillover into budgeting. Several prospective changes in accounting rules warrant mention. One foreseeable change is in accounting and budgeting for risk. Under current rules, a transaction (or event) is wholly included or excluded from financial statements. This “binary” rule leads to overstatement of some liabilities and understatement of others. International organizations that set accounting standards are seeking to devise more flexible rules that would recognize the degree of risk (such as the probability of default) facing government. For example, if the government issues a 100 million guarantee and the probability of default is estimated at 50 percent, financial statements would record a 50 million liability, in contrast to current rules under which either nothing or the entire 100 million would be recognized. Under new probability-based rules, the budget would record either a cash expense of 50 million or the present value of that amount.

Despite contemporary efforts to harmonize budgeting and accounting, it is unlikely that budgeting will be entirely colonized by accounting rules. One reason is that budgeting is subject to multiple influences, and another is that the political sensitivity of budget decisions will lead governments to devise practices that deviate from accounting rules.

## **4. Budgeting Will Be the Same and Different**

It is likely that trends underway in budgeting will intensify in the decades ahead. Governments that still practice annual budgeting will give greater attention to the medium-term, while governments that have already adopted workable medium-term frameworks will stretch their time horizon to longer-run considerations. A similarity (\*?\*) is likely to emerge in the processing of budgetary information. Governments that still orient their budgets to inputs will give greater scope to output and other performance data, while countries that have sound performance information systems will strive to more closely integrate decisions on resources and results. As discussed previously, the trend to include more information on distributive impacts is likely to continue. Governments will struggle to feed program evaluations into budget work, and some will have short-term success, but it will be exceedingly difficult to build evaluation into the ongoing routines of budgeting.

Before undertaking a fuller estimate of future budget practice, it would be useful to explain why neither of the revolutionary scenarios presented at the start of the paper is likely to materialize. The beyond budgeting approach originated in the private sector and has had limited application in government organizations. In government, the budget does not only allocate public money; it also is the means of establishing a legal and political basis for the operation of agencies. The budget is a major statement of government policy; in some countries, it is the most important statement, even when it comes to existing policies. The budget is an essential device whereby politicians imprint their preferences on public policies; it also serves as a sort of road map by which managers run their organizations. Although the rationale of beyond budgeting is sensible, it does not fit well with the purposes of budgeting in government.

Participatory budgeting will likely have greater traction in government, if only because pressure for governments to be more transparent in managing public finance and to give citizens



greater input onto public policy will escalate. One can anticipate innovative governments creatively using the internet and other information technologies to introduce some form of plebiscitary budgeting, in which citizens actually vote on an array of program and spending options. Where participation is formalized through voting schemes, government will have to decide whether the public's verdict should be advisory or binding. It also will have to decide whether the program and spending options put to the ballot should be framed by political leaders or citizen groups.

Participatory budgeting is likely to have greater application in local governments where the scope of issues is relatively narrow and pertains to operational matters such as the amounts to be spent on police patrol and garbage collection. Broad participation will be difficult to operationalize on the national level because of the range of issues that must be considered and the greater diversity of citizen interests. At all levels of government, opening the budget to broad participation might have adverse side effects. Doing so would almost certainly boost conflict over public policies and expenditures, and might shift the focus of budget debate away from performance to inputs, for example, to the number of teachers rather than to the quality of education. In view of the tendency of voters in many countries to hold inconsistent view –they prefer bigger programs but less total spending– expanded participation may complicate the task of producing responsible budgets.

To anticipate how budgeting will evolve, it may be more fruitful to consider what innovative countries are now doing than to conjure up futuristic visions. The remainder of this section describes some promising developments, as well as the rationale that underlies them. The innovations are classified into three main objectives of modern budgeting-- fiscal discipline, effective allocation, and efficient services.

Fiscal discipline. Political demands and variations in economic conditions make it difficult for government to maintain prudent budget aggregates. In good times, pressure mounts on governments to spend the dividends of economic success; in bad times, built-in stabilizers destabilize revenue and spending policies. The open-ended character of conventional budgeting, which allows spenders to bid for as much as they want, complicates the task of disciplining the aggregates. To counteract this tendency, a growing number of national governments have introduced top-down procedures for setting the budget's totals before spending bids are considered, and more will in the future. One can anticipate that fiscal constraints will become standard budget practice in the not too distant future. These constraints take two main forms. One is to establish preset fiscal rules, such as a limit on the deficit as percent of GDP; the other is for the government to set medium-term (or longer) fiscal targets in advance of budget decisions. Preset constraints have an advantage in that they cannot be changed by politicians who want to spend more or tax less. But these constraints may not be sufficiently flexible to work under both favorable and adverse economic conditions. Governments seeking more adaptive arrangements tend to embrace fiscal responsibility rules that can be adjusted in response to changes in political or economic conditions.

Regardless of the approach taken, fiscal constraints are effective only to the extent they are enforced and there are consequences for violating them. In some countries, enforcement is external, though institutions such as the European Commission, which monitors compliance with the Stability and Growth Pact, or the International Monetary Fund, which often imposes fiscal conditions on countries receiving assistance. As globalization advances and national economies become more closely interdependent, additional standards and enforcement mechanisms are likely to be developed.

The spread of fiscal constraints affects high and low income countries differently. High-income countries generally respond to economic weakness by loosening fiscal constraints and running expansionary budget policies. Whether through automatic stabilizers or discretionary actions, deficits rise above targeted levels. However, when low-income countries experience

economic difficulty, they are compelled to adopt austere budgets, either because of conditions imposed by international organizations or inadequate access to capital markets. The most vulnerable citizens and communities are harmed by enforced fiscal consolidation as cash-short governments cut social programs and cancel plans to improve health care or other services. The profound illogic of harming poor people and the affected country's prospects for building a more promising future has spurred international organizations to explore new fiscal guidelines that would accommodate growth-enhancing budget policies within realistic fiscal constraints. One emerging approach is to adopt fiscal rules that would promote both stabilization and growth through productive investments in physical and human capital. Low-income countries would be assisted in borrowing funds to finance these investments, even when they face budget deficits due to economic weakness. However, this effort is still in its infancy and one cannot be sure whether it will produce innovative fiscal rules which recognize that growth is the only realistic pathway out of poverty for low-income countries.

While low-income countries are concerned about solvency, some high-income countries have turned their focus to the long-run sustainability of approved budget policies. This concern had been driven principally by the aging of populations in industrial countries and the projected surge in public expenditure on pensions and health care. At present, only a few countries incorporate long-term sustainability projections that look ahead the next 50 or more years into ongoing budget work. But it is highly likely that the time frame of budget work will be extended beyond the 3-4 year of an MTEF to the inter-generational implications of revenue and spending policies. A focus on sustainability will generate new methodologies for analyzing budget trends, and intensify pressure on politicians to take account of the impact of their decisions on future generations.

Whether to enforce medium-term fiscal rules or to support long-term sustainability analysis, future budget makers will be bound by stricter accounting standards for measuring revenues and expenditures. In many countries, budget statements are constructed on the basis of conventions that diverge from accounting rules and enable governments to accelerate or delay recognition of revenues and expenditures to suit political needs. In the absence of accounting standards, they can shift expenditures off budget, thereby understating the government's true fiscal position. As fiscal rules spread, governments will be pressured to apply the same accounting standards to budgets as they do to other financial statements. Once this occurs, international organizations will gain a role in certifying the budgets and financial statements of national governments.

Effective Allocation. In all countries, government's budget for the next year by looking back at what was allocated the previous year, and making some incremental adjustments based largely on the availability of uncommitted resources. Half a century of reforms has failed to dislodge budgeting from its incremental path. National governments tried a wide suite of innovations to free up resources, ranging from national and strategic planning, to program evaluation and performance-based budgeting. Some had modest success, all either faded away or ultimately were co-opted into the incremental norms of budgeting. During periods of robust growth, governments were able to respond to fresh priorities by allocating the additional money flowing into their coffers. Of course, low-income countries rarely have fiscal dividends, which is why national priorities such as improved health care and other pro-poor initiatives are short-changed when budgets are allocated.

While they have plentiful resources, high-income countries face a narrowing of the space available for policy initiatives in the decades ahead as a growing share of their budget is spent on past commitments for pensions and health care. Confronting as less favorable fiscal future than they had in the past, national governments have taken a variety of approaches to free up funds. Probably the most widely applied is to use the MTEF as an instrument for encouraging spending departments and ministries to shift resources from less to more effective uses. When it implemented properly, MTEF provides for the government to establish a budget constraint for each

sector or department, and it gives each broad latitude in reallocating resources among its programs or administrative subunits. In effect, vTEF decentralizes major reallocation decisions, through central agencies (such as cabinet or the finance ministry) review proposed reallocations to determine whether they are in accord with government priorities. Because this “textbook” version of MTEF has rarely been implemented, there is reason to expect that reallocations have been relatively modest.

Some governments have moved in the opposite direction and have centralized the allocation of new resources. Chile has set aside approximately 2 percent of budgeted resources in a central “bidding fund” that is allocated through competition by spending units. Singapore has gone further and applied 5 percent across the board cuts in all agencies, with the saving reserved for policy initiatives. Across the board cuts may seem to be a crude instrument for reallocation, but they may be the most politically viable means of freeing up money for government initiatives. A more selective approach that reallocates on the basis of evidence concerning program effectiveness is likely to be impeded by opposition from interests that would lose money.

Making allocations more effective is among the most challenging tasks for contemporary budgeting. Frontal assaults on incrementalism don’t work, but marginal adjustments may be a greater prospect of success especially when program evaluations and performance measures are used to improve programs rather than take money away from them. Taking this approach has the benefit of turning program advocates into allies in the drive for more effective government. But there is no assurance that aiming for improvement rather than cutback or reallocation will work.

Efficient services. Citizens know government through the services they receive (or fail to receive) from it. One of the tasks of contemporary budget reform is to improve the delivery of services and the operation of government agencies. In a narrow sense, efficient services is about reducing cost or increasing volume; in a broader sense, it pertains to the quality of services, access of citizens, timeliness, and the courtesy with which they are provided. Sound budget practices can enhance the volume and quality of public services, but only when they are coupled to improvement in public management. One of the recurring missteps of reformers is to assume that budgeting can be modernized when management practices are not. Budgeting is dependent on the overall quality and orientation of management, especially on matters pertaining to performance. Government cannot budget for results when the administrative agencies responsible for delivering services do not manage for results. At the least, a robust budget system needs civil servants who care about the quality of the work they perform, know what they are supposed to accomplish, provide timely and accurate information on what has been achieved and deal with recipients of services in a courteous manner. Budgeting for performance also depends on organizations that are well managed, have reliable internal controls, regard the efficient and prudent expenditure of money as their responsibility and fulfill the tasks assigned to them. When these conditions are absent, inserting information on outputs and outcomes into the budget will be of little value.

There are multiple pathways to improving public services. Some national governments have used the doctrines and practices of new public management (NPM) to reorient public administration from compliance and control to performance and results. NPM gives public managers broad discretion in operating their agencies and spending appropriated funds, but also strives to hold them accountable for how they use public money and for the substantive results they achieve. Other governments have boosted performance while retaining input controls that restrict managerial discretion. A few governments have restructured their budgets along program lines that emphasize the linkages among activities that serve common objectives. Most, however, still budget within an organization structure that gives primacy to the administrative unit responsible for carrying out public activities. A few have introduced cost accounting methods that allocate costs among units or activities; most have standard charts of accounts that assign expenditures to the unit

authorized to spend the funds. Some governments have devised contract-like arrangements that specify the resources to be provided and expected results; most rely on ongoing administrative relationships between supervisors and subordinates and between ministers and senior managers to establish expectations and review results.

The diversity of approaches arises out of the difficulties experienced by governments seeking to improve service delivery and operational efficiency. More than half a century after performance budgeting first emerged in advanced countries, national governments still cannot confidently estimate the incremental changes in results that would ensue from incremental changes in resources. They face two formidable impediments in linking resources and results. One is that politicians and managers do not want to have budget allocations decided on the basis of results; the other is that cost measurement and allocation are not sufficiently developed. Neither of these problems is likely to vanish in the decades ahead, leading this writer to conclude that governments will still be debating the meaning of performance-based budgeting well into the future. They undoubtedly will invent new terminologies to label results, but the problems will be pretty much the same.

## **5. Conclusions: In the Future, Budgeting will be more of the same but different**

The trajectory of budgeting will not be markedly different than it has been thus far. Reformers will perennially seek a more rational basis for allocation, and a process that is less contentious. Drawing from the discussion of budgeting's evolution, we conclude with a series of concise statements on how the process will change.

Annual budgeting will not wither away but will become less salient. The annual process will remain because politicians and managers need a means of responding to new problems and fresh demands. If they were to lock budgeting into a multiyear frame, it would in effect become a national plan that sets out objectives and allocates resources for a fixed term. While possibility cannot be ruled out, a more likely scenario is for annual budgeting to coexist with a medium-term framework and with long-term commitments.

Political leaders will pay more attention to long-term sustainability, but will continue to behave opportunistically in the short-run. Spending initiatives will be reviewed in reference to long-term impacts, but opportunistic politicians will still act in ways that damage the country's fiscal future.

Governments will become more reliant on fiscal rules, but will waive or disregard the rules when the economy is weak and the deficit surges above preset limits. Fiscal rules make sense only when they are sufficiently malleable to accommodate a countercyclical response when output is falling and unemployment is rising. If they aren't, governments will breach deficit targets anyway, and the credibility of fiscal rules will be undermined. The only good time to enforce fiscal constraints is when the economy is robust. But this is the time when revenues are rising, government has plenty of money to spend, and pressure to constrain recedes. Perhaps the only way to assure that fiscal rules are effective through a full economic cycle is to entrust enforcement to an outside authority, such as an international organization. EU's enforcement of the Stability and Growth Pact may be a harbinger of budgeting's future.

Governments will trim the growth in entitlements, but these still will claim a rising share of national financial resources. Entitlements are the most serious threat to fiscal discipline in high-income countries, where they typically consume upwards of 50 percent of national expenditure. Many will be pressured by tight budgets to curtail entitlements; if they don't, the

ageing of their populations will compel them to spend much more than they can prudently afford on pensions and health care for the elderly. Some will avert a financial crisis by fundamentally restructuring major entitlements, for example, shifting from defined benefit to defined contribution pensions or significantly raising the portion of health expenses paid by beneficiaries. Most, however, will make marginal adjustments that keep basic benefits intact but save money. They might raise the retirement age or replace a smaller proportion of income with pensions, but government will retain responsibility for the financial wellbeing of citizens and households. Middle and low income countries may be pressured to improve benefits, but they are likely to move cautiously. Nevertheless, as national income rises, a rising portion of their budgets will be allocated to income support.

Governments will conduct more program evaluations, but reallocation from less to more effective activities will still be limited. As the fiscal space for policy initiatives shrinks, governments will have increased incentive to examine how well existing programs are working. Some will build evaluation into ongoing budget practices, others will establish budget systems outside the budget framework. They will acquire more data and deeper insight into program effectiveness, but they still will have difficulty taking away resources from existing activities in order to finance new ones. Evaluation is likely to be more influential in improving programs than in terminating them. Rating schemes, such as the Program Assessment Rating Tool (PART), introduced by the United States Government, are likely to have a more prominent role because they enable programs to be compared on a single scale and facilitate feeding results into the budget process. As in the past, evaluation will split along two different paths. One will favor “quick and dirty” assessments that can be completed within the time frame of budgeting; the other will insist on evidence-based research that requires collection and analysis of data from field experiments and other scientific methods. Either way, budget makers will struggle to incorporate evaluating findings into the stream of budget decisions.

Governments will strive to measure performance, but they will continue to have difficulty linking resources and results. Performance has been the Holy Grail of budget reformers for decades. It is at once the most obvious and the most challenging task of politicians and managers. After all, it is hard to argue against the proposition that governments should spend public funds wisely on the basis of actual or expected results. Shouldn't questions about how much should be spent be decided in terms of how much more or less will be accomplished by spending more or less? Yet, both technical and political obstacles impede a tight linkage of resources and results. On the technical front, governments lack cost accounting systems to estimate the marginal cost of producing each increment in output; on the political front, budget makers want freedom to fund their preferences, even when results are not favorable. In the future, data on results will be one of the informational inputs into budgeting; its influence will depend on the interests of political and administrative decision makers.

Budgeting will become more closely aligned with accounting, but cash still will matter. Pressure to conform budget practice to accounting rules will intensify, and some governments will put their budgets on an accrual basis. This switch will compel them to expense depreciation of fixed assets, reserve funds for post-employment benefits, and make other adjustments dictated by accounting rules. As these rules evolve, governments will make further adjustments in budget practices, and they may even require that budget accounts be reviewed in the same way that other financial statements are audited. However, most governments still will give primacy to cash accounts, especially in appropriating funds for expenditure. If they don't, agencies will be tempted to spend notional appropriations for depreciation, thereby damaging the government's cash position.

Governments will pay more attention to risk, but will take more risks. Some innovative governments now report their exposure to guarantees and other contingent liabilities in a

supporting statement to the balance sheet or on a schedule that accompanies the budget. The prospective growth of public-private partnerships, in which government takes on risks associated with construction or operation is likely to impel greater transparency with respect to the potential costs of guarantees. Governments also are likely to do a better job in assessing risk in advance, but they will not get out of the business of issuing guarantees, indemnifying financial institutions and others for losses, and establishing various insurance-type pools. The challenge to them will be to assume risk with their eyes open in downstream costs.

Finally, budgeting will continue to be an incremental process. All past efforts to diminish incrementalism's hold have failed, and there is no basis for assuming that future reformers will have more success. The task for innovators will be to make incremental budgeting a more rational process, possibly by formally building marginal analysis into allocative decisions, and by injecting strategic considerations into the informational stream of budgeting. Marginal analysis will be critical when budget decisions are centered around whether government should spend a little more or a little less; strategic thinking will be valuable when government takes on new objectives and responsibilities. Properly implemented, MTEF has the potential to integrate strategic and marginal analysis. The challenge for future reformers will be to make it work.

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